AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 05, 2010

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2592361**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
180 Maiden Lane, New York, New York	**10038**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 770-7000

Former name, former address and former fiscal year, if changed since last report:
70 Pine Street, New York, NY 10270

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 29, 2010, there were 135,143,176 shares outstanding of the registrant's common stock.

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American International Group, Inc. and Subsidiaries

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American International Group, Inc. and Subsidiaries

Part I FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

Consolidated Balance Sheet

(in millions)	September 30, 2010	December 31, 2009
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2010 $277,804; 2009 $364,491)	**$ 296,198**	$ 365,551
Bond trading securities, at fair value	**28,849**	31,243
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2010 $7,389; 2009 $6,464)	**11,266**	9,522
Common and preferred stock trading, at fair value	**5,486**	8,318
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2010 $178; 2009 $119)	**22,943**	27,461
Finance receivables, net of allowance	**1,262**	20,327
Flight equipment primarily under operating leases, net of accumulated depreciation	**39,875**	44,091
Other invested assets (portion measured at fair value: 2010 $11,779; 2009 $18,888)	**36,006**	45,235
Securities purchased under agreements to resell, at fair value	**905**	2,154
Short-term investments (portion measured at fair value: 2010 $18,182; 2009 $23,975)	**34,462**	47,263
Total investments	**477,252**	601,165
Cash	**1,668**	4,400
Accrued investment income	**4,161**	5,152
Premiums and other receivables, net of allowance	**17,035**	16,549
Reinsurance assets, net of allowance	**24,515**	22,425
Current and deferred income taxes	**53**	4,108
Deferred policy acquisition costs	**25,300**	40,814
Real estate and other fixed assets, net of accumulated depreciation	**3,237**	4,142
Unrealized gain on swaps, options and forward transactions, at fair value	**7,639**	9,130
Goodwill	**1,447**	6,195
Other assets, including prepaid commitment asset of $4,718 in 2010 and $7,099 in 2009 (portion measured at fair value: 2010 $14; 2009 $288)	**16,607**	18,976
Separate account assets, at fair value	**58,209**	58,150
Assets held for sale	**234,842**	56,379
Total assets	**$ 871,965**	$ 847,585

See Accompanying Notes to Consolidated Financial Statements.

American International Group, Inc. and Subsidiaries

Consolidated Balance Sheet *(Continued)*

(in millions, except share data)		September 30, 2010		December 31, 2009
Liabilities:				
Liability for unpaid claims and claims adjustment expense	**$**	**86,297**	$	85,386
Unearned premiums		**24,633**		21,363
Future policy benefits for life and accident and health insurance contracts		**78,655**		116,001
Policyholder contract deposits (portion measured at fair value: 2010 $4,763; 2009 $5,214)		**135,545**		220,128
Other policyholder funds		**13,375**		13,252
Commissions, expenses and taxes payable		**3,455**		4,950
Insurance balances payable		**3,380**		4,393
Funds held by companies under reinsurance treaties		**701**		774
Securities sold under agreements to repurchase (portion measured at fair value: 2010 $3,242; 2009 $3,221)		**3,901**		3,505
Securities and spot commodities sold but not yet purchased, at fair value		**163**		1,030
Unrealized loss on swaps, options and forward transactions, at fair value		**6,455**		5,403
Trust deposits and deposits due to banks and other depositors (portion measured at fair value: 2010 $15; 2009 $15)		**936**		1,641
Other liabilities		**22,308**		22,503
Federal Reserve Bank of New York Commercial Paper Funding Facility (portion measured at fair value: 2009 $2,742)		**-**		4,739
Federal Reserve Bank of New York credit facility		**20,470**		23,435
Other long-term debt (portion measured at fair value: 2010 $13,300; 2009 $13,195)		**93,419**		113,298
Separate account liabilities		**58,209**		58,150
Liabilities held for sale		**209,323**		48,599
Total liabilities		**761,225**		748,550
Commitments, contingencies and guarantees (see Note 9)				
Redeemable noncontrolling interests in partially owned consolidated subsidiaries (including $107 and $211 associated with businesses held for sale in 2010 and 2009, respectively)		**2,027**		959
AIG shareholders' equity:				
Preferred stock				
Series E; $5.00 par value; shares issued: 2010 and 2009 400,000, at aggregate liquidation value		**41,605**		41,605
Series F; $5.00 par value; shares issued: 2010 and 2009 300,000, aggregate liquidation value: 2010 7,543; 2009 5,344		**7,378**		5,179
Series C; $5.00 par value; shares issued: 2010 and 2009 100,000, aggregate liquidation value: 2010 and 2009 $0.5		**23,000**		23,000
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2010 141,799,335; 2009 141,732,263		**354**		354
Treasury stock, at cost; 2010 6,660,908; 2009 6,661,356 shares of common stock		**(873)**		(874)
Additional paid-in capital		**5,864**		6,358
Accumulated deficit		**(14,486)**		(11,491)
Accumulated other comprehensive income		**18,000**		5,693
Total AIG shareholders' equity		**80,842**		69,824
Noncontrolling interests:				
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York		**25,955**		24,540
Other (including $403 and $2,234 associated with businesses held for sale in 2010 and 2009, respectively)		**1,916**		3,712

Total noncontrolling interests		**27,871**		28,252
Total equity		**108,713**		98,076
Total liabilities and equity	**$**	**871,965**	$	847,585

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Income (Loss)

(dollars in millions, except per share data)	**Three Months Ended September 30, 2010**	Three Months Ended September 30, 2009	**Nine Months Ended September 30, 2010**	Nine Months Ended September 30, 2009
Revenues:				
Premiums and other considerations	**$ 12,639**	$ 11,695	**$ 35,931**	$ 39,052
Net investment income	**5,231**	6,409	**15,469**	14,044
Net realized capital losses:				
Total other-than-temporary impairments on available for sale securities	**(459)**	(901)	**(1,397)**	(5,200)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Accumulated other comprehensive income	**(345)**	(57)	**(595)**	304
Net other-than-temporary impairments on available for sale securities recognized in net loss	**(804)**	(958)	**(1,992)**	(4,896)
Other realized capital gains (losses)	**143**	(897)	**510**	(77)
Total net realized capital losses	**(661)**	(1,855)	**(1,482)**	(4,973)
Unrealized market valuation gains on Capital Markets super senior credit default swap portfolio	**152**	959	**432**	1,143
Other income	**1,730**	2,396	**5,264**	7,520
Total revenues	**19,091**	19,604	**55,614**	56,786
Benefits, claims and expenses:				
Policyholder benefits and claims incurred	**11,175**	11,340	**30,747**	36,600
Policy acquisition and other insurance expenses	**3,898**	3,533	**11,168**	11,765
Interest expense	**2,158**	2,093	**5,334**	6,680
Restructuring expenses and related asset impairment and other expenses	**159**	254	**339**	908
Net loss (gain) on sale of divested businesses	**(4)**	885	**(126)**	1,192
Other expenses	**1,283**	2,016	**4,354**	5,465
Total benefits, claims and expenses	**18,669**	20,121	**51,816**	62,610
Income (loss) from continuing operations before income tax expense (benefit)	**422**	(517)	**3,798**	(5,824)
Income tax expense (benefit)	**469**	(408)	**1,044**	(1,510)
Income (loss) from continuing operations	**(47)**	(109)	**2,754**	(4,314)

Income (loss) from discontinued operations, net of income tax expense (benefit) (See Note 3)	**(1,844)**	94	**(4,329)**	1,011
Net loss	**(1,891)**	(15)	**(1,575)**	(3,303)
Less:				
Net income (loss) from continuing operations attributable to noncontrolling interests:				
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	**388**	-	**1,415**	-
Other	**104**	(496)	**243**	(1,271)
Total net income (loss) from continuing operations attributable to noncontrolling interests	**492**	(496)	**1,658**	(1,271)
Net income from discontinued operations attributable to noncontrolling interests	**12**	26	**35**	44
Total net income (loss) attributable to noncontrolling interests	**504**	(470)	**1,693**	(1,227)
Net income (loss) attributable to AIG	**$ (2,395)**	$ 455	**$ (3,268)**	$ (2,076)
Net income (loss) attributable to AIG common shareholders	**$ (2,395)**	$ 92	**$ (661)**	$ (3,371)
Income (loss) per common share attributable to AIG:				
Basic:				
Income (loss) from continuing operations	**$ (3.97)**	$ 0.58	**$ 1.63**	$ (32.06)
Income (loss) from discontinued operations	**$ (13.65)**	$ 0.10	**$ (6.51)**	$ 7.14
Diluted:				
Income (loss) from continuing operations	**$ (3.97)**	$ 0.58	**$ 1.63**	$ (32.06)
Income (loss) from discontinued operations	**$ (13.65)**	$ 0.10	**$ (6.51)**	$ 7.14
Weighted average shares outstanding:				
Basic	**135,879,125**	135,293,841	**135,788,053**	135,276,345
Diluted	**135,879,125**	135,456,372	**135,855,328**	135,276,345

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2010**	**2009**	**2010**	**2009**
Net loss	**$ (1,891)**	$ (15)	**$ (1,575)**	$ (3,303)
Other comprehensive income:				
Unrealized appreciation of fixed maturity investments on which other-than-temporary credit impairments were taken	**781**	758	**2,011**	1,870
Income tax expense on above changes	**(584)**	(221)	**(1,012)**	(671)
Unrealized appreciation of all other investments net of reclassification adjustments	**11,277**	18,164	**18,597**	23,749
Income tax expense on above changes	**(3,446)**	(6,481)	**(6,441)**	(8,952)
Foreign currency translation adjustments	**1,514**	408	**(266)**	1,403
Income tax benefit (expense) on above changes	**(638)**	(221)	**116**	(630)
Net derivative gains (losses) arising from cash flow hedging activities net of reclassification adjustments	**46**	(7)	**83**	64
Income tax benefit (expense) on above changes	**(44)**	2	**(20)**	(19)
Change in retirement plan liabilities adjustment	**(514)**	127	**(411)**	218
Income tax benefit (expense) on above changes	**110**	(41)	**101**	(71)
Other comprehensive income	**8,502**	12,488	**12,758**	16,961
Comprehensive income	**6,611**	12,473	**11,183**	13,658
Comprehensive income (loss) attributable to noncontrolling interests	**379**	(193)	**385**	(867)
Comprehensive income (loss) attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	**388**	-	**1,415**	-
Comprehensive income attributable to AIG	**$ 5,844**	$ 12,666	**$ 9,383**	$ 14,525

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

(in millions)	Nine Months Ended September 30, 2010	2009
Summary:		
Net cash provided by operating activities	**$ 15,115**	$ 11,974
Net cash provided by (used in) investing activities	**(7,527)**	9,149
Net cash used in financing activities	**(8,772)**	(25,003)
Effect of exchange rate changes on cash	**(4)**	195
Change in cash	**(1,188)**	(3,685)
Cash at beginning of period	**4,400**	8,642
Reclassification of assets held for sale	**(1,544)**	-
Cash at end of period	**1,668**	4,957
Cash flows from operating activities:		
Net loss	**$ (1,575)**	$ (3,303)
(Income) loss from discontinued operations	**4,329**	(1,011)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in loss:		
Net gains on sales of securities available for sale and other assets	**(1,943)**	(689)
Net (gains) losses on sales of divested businesses	**(126)**	1,192
Unrealized (gains) losses in earnings net	**737**	(4,305)
Equity in (income) loss from equity method investments, net of dividends or distributions	**(592)**	1,831
Depreciation and other amortization	**9,104**	9,129
Provision for mortgage, other loans and finance receivables	**376**	1,065
Impairments of assets	**3,775**	7,793
Amortization of costs and accrued interest and fees related to FRBNY Credit Facility	**2,762**	3,557
Changes in operating assets and liabilities:		
General and life insurance reserves	**3,729**	3,277
Premiums and other receivables and payables net	**(606)**	1,204
Reinsurance assets and funds held under reinsurance treaties	**(2,124)**	317
Capitalization of deferred policy acquisition costs	**(7,940)**	(6,792)
Other policyholder funds	**339**	529
Current and deferred income taxes net	**(90)**	(1,629)
Trading securities	**542**	965
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	**1,208**	(233)
Securities and spot commodities sold but not yet purchased	**(867)**	(1,657)
Finance receivables and other loans held for sale originations and purchases	**(15)**	(60)
Sales of finance receivables and other loans held for sale	**64**	84
Other, net	**(2,118)**	(2,853)
Total adjustments	**6,215**	12,725
Net cash provided by operating activities continuing operations	**8,969**	8,411
Net cash provided by operating activities discontinued operations	**6,146**	3,563
Net cash provided by operating activities	**$ 15,115**	$ 11,974

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Cash Flows *(Continued)*

(in millions)	Nine Months Ended September 30, 2010	2009
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales of available for sale investments	**$ 33,951**	$ 32,365
Maturities of fixed maturity securities available for sale and hybrid investments	**10,651**	12,723
Sales of trading securities	**5,080**	11,001
Sales or distributions of other invested assets (including flight equipment)	**7,609**	8,794
Sales of divested businesses, net	**1,903**	4,658
Principal payments received on mortgage and other loans receivable	**2,785**	2,943
Principal payments received on and sales of finance receivables held for investment	**938**	4,044
Purchases of available for sale investments	**(60,770)**	(39,907)
Purchases of trading securities	**(2,285)**	(4,025)
Purchases of other invested assets (including flight equipment)	**(6,126)**	(8,064)
Acquisition, net of cash acquired	**(139)**	-
Mortgage and other loans receivable issued	**(1,622)**	(2,143)
Finance receivables held for investment originations and purchases	**(673)**	(2,923)
Net additions to real estate, fixed assets, and other assets	**(234)**	(270)
Net change in short-term investments	**4,649**	(10,535)
Net change in derivative assets and liabilities other than Capital Markets	**186**	169
Other, net	**(166)**	31
Net cash provided by (used in) investing activities continuing operations	**(4,263)**	8,861
Net cash provided by (used in) investing activities discontinued operations	**(3,264)**	288
Net cash provided by (used in) investing activities	**$ (7,527)**	$ 9,149
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**$ 14,719**	$ 15,555
Policyholder contract withdrawals	**(11,120)**	(20,589)
Change in commercial paper and other short-term debt	**-**	(425)
Change in Federal Reserve Bank of New York Commercial Paper Funding Facility borrowings	**(5,855)**	(5,735)
Federal Reserve Bank of New York credit facility borrowings	**14,900**	20,000
Federal Reserve Bank of New York credit facility repayments	**(18,512)**	(21,000)
Issuance of other long-term debt	**9,683**	2,977
Repayments on other long-term debt	**(10,481)**	(12,959)
Drawdown on the Department of the Treasury Commitment	**2,199**	3,206
Other, net	**(376)**	(176)
Net cash used in financing activities continuing operations	**(4,843)**	(19,146)
Net cash used in financing activities discontinued operations	**(3,929)**	(5,857)
Net cash used in financing activities	**$ (8,772)**	$ (25,003)
Supplementary disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$ (3,978)**	$ (4,337)
Taxes	**$ (1,134)**	$ (19)

Non-cash financing/investing activities:				
Interest credited to policyholder contract deposits included in financing activities	**$**	**6,768**	$	10,382
Long-term debt reduction due to deconsolidations	**$**	**1,092**	$	1,248
Debt assumed on consolidation of variable interest entities	**$**	**2,591**	$	-
Debt assumed on acquisition	**$**	**164**	$	-

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Equity

Nine Months Ended September 30, 2010 *(in millions)*	**Preferred Stock**	**Common Stock**	**Treasury Stock**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income**	**Total AIG Share-holders' Equity**	**Non-controlling Interests**	**Total Equity**
Balance, beginning of year	**$ 69,784**	**$ 354**	**$ (874)**	**$ 6,358**	**$ (11,491)**	**$ 5,693**	**$ 69,824**	**$ 28,252**	**$ 98,076**
Series F drawdowns	**2,199**	**-**	**-**	**-**	**-**	**-**	**2,199**	**-**	**2,199**
Common stock issued under stock plans	**-**	**-**	**-**	**(5)**	**-**	**-**	**(5)**	**-**	**(5)**
Cumulative effect of change in accounting principle, net of tax	**-**	**-**	**-**	**-**	**238**	**(344)**	**(106)**	**-**	**(106)**
Net income (loss) attributable to AIG or other noncontrolling interests[(a)]	**-**	**-**	**-**	**-**	**(3,268)**	**-**	**(3,268)**	**188**	**(3,080)**
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by the Federal Reserve Bank of New York	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,415**	**1,415**
Other comprehensive income[(b)]	**-**	**-**	**-**	**-**	**-**	**12,651**	**12,651**	**102**	**12,753**
Net decrease due to deconsolidation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,261)**	**(2,261)**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**198**	**198**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(124)**	**(124)**
Deferred taxes	**-**	**-**	**-**	**(543)**	**-**	**-**	**(543)**	**-**	**(543)**
Other	**-**	**-**	**1**	**54**	**35**	**-**	**90**	**101**	**191**
Balance, end of period	**$ 71,983**	**$ 354**	**$ (873)**	**$ 5,864**	**$ (14,486)**	**$ 18,000**	**$ 80,842**	**$ 27,871**	**$ 108,713**
Nine Months Ended September 30, 2009									
Balance, beginning of year	$ 40,000	$ 368	$ (8,450)	$ 39,488	$ (12,368)	$ (6,328)	$ 52,710	$ 8,095	$ 60,805
Series C issuance	23,000	-	-	(23,000)	-	-	-	-	-
Series D exchange for Series E	1,605	-	-	(1,605)	-	-	-	-	-
Series F drawdowns	3,206	-	-	-	-	-	3,206	-	3,206
Series F commitment fee	(165)	-	-	-	-	-	(165)	-	(165)
Common stock issued under stock plans	-	-	177	(177)	-	-	-	-	-
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	11,826	(9,348)	2,478	-	2,478
Net loss attributable to AIG or other noncontrolling interests[(a)]	-	-	-	-	(2,076)	-	(2,076)	(1,479)	(3,555)
Other comprehensive income	-	-	-	-	-	16,601	16,601	360	16,961
Net decrease due to deconsolidation	-	-	-	-	-	-	-	(3,332)	(3,332)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	454	454
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(344)	(344)
Other	-	-	-	(42)	-	-	(42)	71	29
Balance, end of period	**$ 67,646**	**$ 368**	**$ (8,273)**	**$ 14,664**	**$ (2,618)**	**$ 925**	**$ 72,712**	**$ 3,825**	**$ 76,537**

(a)

Excludes gains of $90 million and $252 million for the nine-month periods ended September 30, 2010 and 2009, respectively, attributable to redeemable noncontrolling interests. For the nine months ended September 30, 2010 excludes Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by the Federal Reserve Bank of New York of $1.4 billion.

(b)

Excludes $5 million attributable to redeemable noncontrolling interests.

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Form 8-K filed on August 6, 2010 (the 2009 Financial Statements). The condensed consolidated financial information as of December 31, 2009 has been derived from audited consolidated financial statements not included herein.

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. Interim period operating results may not be indicative of the operating results for a full year. AIG evaluated the need to disclose events that occurred subsequent to the balance sheet date. All material intercompany accounts and transactions have been eliminated.

Certain reclassifications and disclosure changes have been made to prior period amounts to conform to the current period presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the application of accounting policies that often involve a significant degree of judgment. AIG considers its accounting policies that are most dependent on the application of estimates and assumptions, and therefore viewed as critical accounting estimates, to be those relating to items considered by management in the determination of:

- insurance liabilities, including general insurance unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;
- recoverability of assets, including deferred policy acquisition costs (DAC) and flight equipment;
- estimated gross profits for investment-oriented products;
- the allowance for finance receivable losses;
- impairment charges, including other-than-temporary impairments and goodwill impairment;
- liabilities for legal contingencies;
- estimates with respect to income taxes, including recoverability of deferred tax assets;
- fair value measurements of certain financial assets and liabilities, including credit default swaps (CDS) and AIG's economic interest in Maiden Lane II LLC (ML II) and equity interest in Maiden Lane III LLC (ML III) (together, the Maiden Lane Interests);

- classification of entities as held for sale or as discontinued operations;
- fair value of the assets and liabilities, including non-controlling interests, related to acquisitions; and
- AIG's ability to continue as a going concern.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG's consolidated financial condition, results of operations and cash flows would be materially affected.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Out of Period Adjustments

For the three- and nine-month periods ended September 30, 2010, AIG recorded out of period adjustments relating to prior periods that decreased Net loss attributable to AIG by $166 million and increased Net loss attributable to AIG by $210 million, respectively, including certain tax adjustments for the three-month period and, for the nine-month period, the effect of recording impairments on certain consolidated investments held in the Institutional Asset Management operations, which affected the calculation of income taxes, and a foreign currency adjustment. While these adjustments were noteworthy for the periods, after evaluating the quantitative and qualitative aspects of these corrections, AIG concluded that its prior period financial statements were not materially misstated and, therefore, no restatement was required.

Had these and all previously reported out of period adjustments been recorded in their appropriate periods, Net loss attributable to AIG for the year ended December 31, 2009 would have increased by $578 million, from $10.9 billion to $11.5 billion.

Going Concern Considerations

In the audited financial statements included in the 2009 Financial Statements, management disclosed the conditions and events that led management to conclude that AIG would have adequate liquidity to finance and operate AIG's businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months.

Progress on Management's Plans for Stabilization of AIG and Repayment of AIG's Obligations as They Come Due

AIG has been working to protect and enhance the value of its key businesses, execute an orderly asset disposition plan, and position itself for the future. AIG continually reassesses this plan to maximize value while maintaining flexibility in managing its liquidity and capital.

Recapitalization

On September 30, 2010, AIG entered into an agreement in principle (the Recapitalization Agreement in Principle) with the United States Department of the Treasury (Department of the Treasury), the FRBNY and the AIG Credit Facility Trust, a trust established for the sole benefit of the United States Treasury (together with its trustees, the Trust) for a recapitalization transaction (the Recapitalization). The Recapitalization Agreement in Principle contemplates the Recapitalization will be completed before the end of the first quarter of 2011. The principal terms of the Recapitalization will be as follows:

Repayment and Termination of the FRBNY Credit Facility: The transactions constituting the Recapitalization are to occur substantially simultaneously at the closing (Closing) of the Recapitalization. At the Closing, AIG will repay to the FRBNY in cash all amounts owing under the FRBNY Credit Facility and the FRBNY Credit Facility will be terminated. As of October 31, 2010, the total repayment amount under the FRBNY Credit Facility was approximately $20 billion. The funds for repayment are to come from the net cash proceeds from the sale in a public offering of approximately 67 percent of the ordinary shares of AIA Group Limited (AIA) and the sale of American Life Insurance Company (ALICO), which closed on October 29, 2010 and November 1, 2010, respectively, and from additional funds from operations, financings and asset sales. None of these funds are expected to come from regulated subsidiaries other than through ordinary-course dividends. The net cash proceeds from the initial public offering of AIA and the sale of ALICO will be loaned to AIG (for repayment of the FRBNY Credit Facility), in the form of intercompany secured non-recourse loans, from the special purpose vehicles that hold AIA and ALICO (SPVs, and such loans, SPV Intercompany Loans).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

At the time of repayment and termination of the FRBNY Credit Facility, any remaining unamortized prepaid commitment fee asset, which approximated $4.3 billion at September 30, 2010, will be written off by AIG through a net charge to earnings.

Repurchase and Exchange of the SPV Preferred Interests: At the Closing, AIG will draw down an amount remaining available to be funded under the commitment of the Department of the Treasury (Department of the Treasury Commitment) pursuant to the Securities Purchase Agreement, dated as of April 17, 2009 (Series F SPA), between AIG and the Department of the Treasury relating to the Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (Series F Preferred Stock), less any amount designated by AIG (Series G Drawdown Right) to be allocated to the Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (Series G Preferred Stock), as described below. As of October 31, 2010, the total available funding under the Department of the Treasury Commitment was approximately $22.3 billion. AIG will use the amount drawn down at closing (the Series F Closing Drawdown Amount) to repurchase all or a portion of the FRBNY's preferred interests in the SPVs (SPV Preferred Interests) corresponding to the Series F Closing Drawdown Amount (Transferred SPV Preferred Interests) and transfer the Transferred SPV Preferred Interests to the Department of the Treasury in partial consideration for shares of the Series F Preferred Stock with an equivalent liquidation value as described below.

Any SPV Preferred Interests not transferred to the Department of the Treasury at the Closing will continue to be held by the FRBNY and will be senior to the Transferred SPV Preferred Interests held by the Department of the Treasury. In addition to the proceeds from the monetization of the remaining ordinary shares of AIA held by AIG and the MetLife securities received from the sale of ALICO after the Closing, AIG will use the proceeds from any sales or dispositions of its equity interests in Nan Shan Life Insurance Company, Ltd. (Nan Shan), AIG Star Life Insurance Co. Ltd. (AIG Star), AIG Edison Life Insurance Company (AIG Edison), International Lease Finance Corporation (ILFC) and AIG's and its subsidiaries' interests in ML II and ML III to repay the SPV Intercompany Loans and thereby provide funds with which the SPVs may pay down the liquidation preference of the SPV Preferred Interests remaining outstanding after the Closing.

As a result of these transactions, the SPV Preferred Interests will no longer be considered permanent equity on AIG's balance sheet, and will be classified as redeemable noncontrolling interests in partially owned consolidated subsidiaries.

Issuance of AIG's Series G Preferred Stock: In connection with the Recapitalization, AIG and the Department of the Treasury will amend and restate the Series F SPA to provide for the issuance of the Series G Preferred Stock by AIG to the Department of the Treasury at the Closing. The right of AIG to draw on the Department of the Treasury Commitment will be terminated, and outstanding Series F Preferred Stock will be exchanged as described below.

The Series G Preferred Stock will initially have an aggregate liquidation preference equal to at least the amount of funds, if any, drawn down by AIG under the Series F SPA after September 30, 2010 but before the Closing. From the Closing until March 31, 2012, AIG may draw down funds under the Series G Drawdown Right to be used for general corporate purposes, which will increase the aggregate liquidation preference of the Series G Preferred Stock. AIG generally may draw down funds up to the $2 billion that may be designated by AIG prior to the Closing. This drawdown right will be subject to terms and conditions substantially similar to those in the current Series F SPA, except that there will be no condition that the Trust and the Department of the Treasury own over 50 percent of AIG's voting securities.

Dividends on the Series G Preferred Stock will be payable on a cumulative basis at a rate per annum of 5 percent, compounded quarterly, of the aggregate liquidation preference of the Series G Preferred Stock. Dividends not paid in cash will be paid in kind on a quarterly basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The available funding under the Series G Drawdown Right that may be used for general corporate purposes will generally be reduced by the amount of net proceeds of future AIG equity offerings. If the FRBNY continues to hold any SPV Preferred Interests at the time when any such net proceeds are realized, any amount by which the generally available funding under the Series G Drawdown Right is reduced in the manner described above will instead be drawn by AIG and used to repurchase a corresponding amount of SPV Preferred Interests from the FRBNY, which will then be transferred to the Department of the Treasury to repay the draw in the same manner as at the Closing. If the net proceeds of future AIG equity offerings exceed the available funding under the Series G Drawdown Right, AIG will be required to use such excess net proceeds to effect a repurchase and transfer of the SPV Preferred Interests from the FRBNY to the Department of the Treasury as described above or if the FRBNY does not then hold SPV Preferred Interests, to pay down the liquidation preference on the Series G Preferred Stock.

AIG may not directly redeem the Series G Preferred Stock or use cash to reduce its liquidation preference while the FRBNY continues to hold any SPV Preferred Interests, but AIG will have the right to use cash to repurchase a corresponding amount of SPV Preferred Interests from the FRBNY, which will then be transferred to the Department of the Treasury and will accordingly reduce the aggregate liquidation preference of the Series G Preferred Stock. If the FRBNY no longer holds SPV Preferred Interests, AIG may use cash to reduce the liquidation preference of the Series G Preferred Stock or the Series G Preferred Stock will be redeemable in cash at AIG's option, at the liquidation preference plus accrued and unpaid dividends.

If the FRBNY continues to hold any SPV Preferred Interests on March 31, 2012, AIG will draw down all remaining available funds under the Series G Drawdown Right to the extent of the remaining aggregate liquidation preference of those SPV Preferred Interests (or the full remaining available amount, if less). Such funds will also be used to repurchase SPV Preferred Interests to be transferred to the Department of the Treasury to repay the draw as described above. If, after giving effect to the foregoing, the Series G Preferred Stock has an outstanding aggregate liquidation preference on March 31, 2012, it will be converted into a number of shares of AIG common stock, par value $2.50 per share (AIG Common Stock), equal to the aggregate liquidation preference plus accrued and unpaid dividends divided by the lesser of 80 percent of the volume weighted average price of AIG Common Stock over the 20 trading days prior to the announcement date of the Recapitalization and 80 percent of the volume weighted average price of AIG Common Stock over a measurement period prior to the Closing.

Exchange of Series C, E and F Preferred Stock for AIG Common Stock: At the Closing, (i) the shares of the Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (Series C Preferred Stock), held by the Trust will be exchanged for approximately 562.9 million shares of AIG Common Stock, which will simultaneously be distributed to the Department of the Treasury; (ii) the shares of the Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (Series E Preferred Stock) held by the Department of the Treasury will be exchanged for approximately 924.5 million shares of AIG Common Stock; and (iii) the shares of the Series F Preferred Stock held by the Department of the Treasury will be exchanged for (a) the Transferred SPV Preferred Interests (as described above), (b) newly issued shares of the Series G Preferred Stock and (c) approximately 167.6 million shares of AIG Common Stock. After completing the Recapitalization, the Department of the Treasury will hold approximately 1.655 billion shares of newly issued AIG Common Stock, representing ownership of approximately 92.1 percent of the AIG Common Stock that will be outstanding as of the Closing.

AIG will agree to grant to the Department of the Treasury registration rights with respect to the shares of AIG Common Stock issued at the Closing on terms substantially consistent with those relating to the Series C Preferred Stock, subject to appropriate modifications relating to AIG's obligation to undertake an equity offering, including appropriate lock-up arrangements and restrictions on the exercise of registration rights by transferees.

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The issuance of AIG Common Stock in connection with the exchange for the Series C Preferred Stock, the Series E Preferred Stock and the Series F Preferred Stock will significantly affect the determination of net income (loss) attributable to common shareholders and the weighted average shares outstanding, both of which are used to compute earnings (loss) per share.

Issuance to AIG's Shareholders of Warrants to Purchase AIG Common Stock: Immediately after the Closing, AIG will issue to the holders of AIG Common Stock prior to the Closing, by means of a dividend, 10-year warrants to purchase up to 75 million shares of AIG Common Stock in the aggregate at an exercise price of $45.00 per share.

Exchange of Equity Units: On October 8, 2010 AIG commenced a registered exchange offer in which it has offered shares of AIG Common Stock and cash for AIG's equity units mandatorily exchangeable for shares of AIG Common Stock that it previously issued in May 2008.

The Department of the Treasury's Outstanding Warrants: The outstanding warrants currently held by the Department of the Treasury will remain outstanding following the Recapitalization, but no adjustment will be made to the terms of the warrants as a result of the Recapitalization.

These transactions contemplated by the Recapitalization are subject to the negotiation and execution of definitive documentation, whose terms may differ from those described above, and include the following material conditions:

- the Recapitalization transactions will generate aggregate proceeds sufficient to repay all amounts owing under the FRBNY Credit Facility;
- the FRBNY will not hold SPV Preferred Interests having an aggregate liquidation preference in excess of $6 billion;
- AIG and the primary insurance companies of Chartis and SunAmerica shall have rating profiles reasonably acceptable to the FRBNY, the Department of the Treasury, the Trust and AIG;
- AIG shall have in place at the Closing available cash and third party financing commitments in amounts and on terms reasonably acceptable to the FRBNY, the Department of the Treasury and AIG;
- AIG shall have achieved its year-end 2010 targets for the de-risking of AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (AIGFP); and
- shareholder, regulatory and other customary approvals.

Sales of Businesses and Specific Asset Dispositions

AIA Initial Public Offering

During the second quarter of 2010, AIG and Prudential plc terminated the AIA purchase agreement entered during the first quarter of 2010, and in accordance with the terms of the purchase agreement, Prudential plc paid AIG a termination fee of $228 million, which was included in Net loss (gain) on sale of divested businesses in the Consolidated Statement of Income (Loss) during the second quarter of 2010. As a result of

the termination, AIA is presented as part of continuing operations in the Consolidated Financial Statements (AIA was previously presented as discontinued operations upon the entry into the purchase agreement in the first quarter of 2010). See Note 2 herein for discussion of segment reporting presentation.

On October 29, 2010, AIG completed an initial public offering of 8.08 billion ordinary shares of AIA for aggregate gross proceeds of approximately $20.51 billion. Upon completion of the initial public offering, AIG owned approximately 33 percent of AIA's outstanding shares. Accordingly in the fourth quarter of 2010, AIG will deconsolidate AIA and expects to record a material gain on the transaction. See Note 16 herein for additional information. Under the terms of an agreement with the underwriters, AIG is precluded from selling or hedging

any of its remaining shares of AIA until October 18, 2011 and more than half of its remaining shares of AIA until April 18, 2012. Based on AIG's significant continuing involvement, AIA is not being presented as a discontinued operation in the Consolidated Financial Statements at September 30, 2010. At October 29, 2010, the fair value of AIG's retained interest in AIA was approximately $11.8 billion.

Under the Recapitalization Agreement in Principle, net cash proceeds from the AIA public offering will be held in escrow pending the Closing of the transactions contemplated by the Recapitalization Agreement in Principle. Upon the Closing, these cash proceeds will be loaned by AIA SPV to AIG and will be used to repay amounts owing under the FRBNY Credit Facility. If the transactions contemplated by the Recapitalization Agreement in Principle are not completed, AIG expects that the net proceeds would instead be used to pay down the liquidation preference of the AIA SPV Preferred Interests held by the FRBNY, including preferred returns. AIG expects that, unless otherwise agreed with the FRBNY, any excess would then be used to repay any outstanding debt under the FRBNY Credit Facility.

ALICO Sale

On March 7, 2010, AIG and ALICO Holdings LLC (ALICO SPV), a special purpose vehicle formed by AIG, entered into a definitive agreement with MetLife, Inc. (MetLife) for the sale of American Life Insurance Company (ALICO) by ALICO SPV to MetLife, and the sale of Delaware American Life Insurance Company by AIG to MetLife, for consideration then valued at approximately $15.5 billion, consisting of $6.8 billion in cash and the remainder in equity securities of MetLife, subject to closing adjustments. The ALICO sale closed on November 1, 2010. The fair market value of the consideration at closing was approximately $16.2 billion.

On the closing date, as consideration for the ALICO sale, ALICO SPV received net cash consideration of $7.2 billion (which included an upward price adjustment of approximately $400 million pursuant to the terms of the ALICO stock purchase agreement), 78,239,712 shares of MetLife common stock, 6,857,000 shares of newly issued MetLife participating preferred stock convertible into 68,570,000 shares of MetLife common stock upon the approval of MetLife shareholders, and 40,000,000 equity units of MetLife with an aggregate stated value of $3.0 billion. AIG intends to monetize these MetLife securities over time, subject to market conditions, following the lapse of agreed-upon minimum holding periods. AIG expects to record a material gain on the transaction in the fourth quarter.

Under the Recapitalization Agreement in Principle, net cash proceeds from the ALICO sale will be held in escrow pending the Closing of the Recapitalization. Upon the Closing of the transactions contemplated by the Recapitalization Agreement in Principle, these cash proceeds will be loaned by ALICO SPV to AIG and will be used to repay amounts owing under the FRBNY Credit Facility. If the transactions contemplated by the Recapitalization Agreement in Principle are not completed, AIG expects that the cash proceeds would instead be paid to the FRBNY in its capacity as holder of preferred interests in ALICO SPV to reduce the aggregate outstanding liquidation preference of those preferred interests.

Prior to conversion into MetLife common stock, the MetLife participating preferred stock will be entitled to dividends equivalent, on an as-converted basis, to those that may be declared from time to time on MetLife common stock.

Each of the equity units of MetLife has an initial stated amount of $75 and consists of an ownership interest in three series of senior debt securities of MetLife and three stock purchase contracts with a weighted average life of approximately three years. The stock purchase contracts obligate the holder of an equity unit to purchase, and obligate MetLife to sell, a number of shares of MetLife common stock that will be determined based on the market price of MetLife common stock at the scheduled settlement dates under the stock purchase contracts (a minimum of 67,764,000 shares and a maximum of 84,696,000 shares in the aggregate for all equity units, subject to anti-dilution adjustments). The equity units provide for the remarketing of the senior debt securities to fund the purchase price of the MetLife common stock. They also entitle the holder to receive interest payments on the senior debt securities and deferrable contract payments at a combined rate equal to 5% of their stated amount.

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The equity units have been placed in escrow as collateral to secure payments, if any, in respect of indemnity obligations owed by ALICO SPV to MetLife under the ALICO stock purchase agreement and other transaction agreements. The escrow collateral will be released to ALICO SPV over a 30-month period, to the extent not used to make indemnity payments or to secure pending indemnity claims submitted by MetLife.

AGF Sale

On August 10, 2010, AIG entered into a definitive agreement to sell 80 percent of American General Finance Inc. (AGF) for $125 million. AIG will retain economic interests of 20 percent in the remaining AGF business and 16 percent of the voting rights. Based on other provisions of the sale, including lack of voting board representation, AIG will not have significant influence and therefore will carry AGF as a cost method investment. AGF has been reclassified as a discontinued operation as AIG is expected to have limited continuing involvement with AGF's operations. As a result of this transaction, AIG recorded an estimated pre-tax loss of approximately $1.9 billion in the third quarter of 2010. The transaction is expected to close by the end of 2010, subject to regulatory approvals and customary closing conditions.

AIG Star and AIG Edison Sale

On September 29, 2010, AIG entered into a definitive agreement with Prudential Financial, Inc. for the sale of its Japan-based insurance subsidiaries, AIG Star and AIG Edison, for total consideration of $4.8 billion, less the principal balance of certain outstanding debt owed by AIG Star and AIG Edison as of the closing date. As of September 30, 2010, the outstanding principal balance of the debt approximated $0.6 billion. In connection with the sale, AIG recorded a goodwill impairment charge of $1.3 billion in the third quarter of 2010. The transaction is expected to close by the end of the first quarter of 2011, subject to regulatory approvals and customary closing conditions.

See Note 3 for discussion of discontinued operations and Note 9 for a discussion of guarantees and indemnifications associated with sales of businesses.

Liquidity of Parent and Subsidiaries

AIG manages liquidity at both the parent and subsidiary levels. AIG expects the parent's primary uses of available cash will be debt service and subsidiary funding.

AIG expects that dividends, distributions, and other payments from subsidiaries will support AIG Parent's liquidity needs. The FRBNY Credit Facility is also expected to continue to be a source of liquidity until the Closing of the Recapitalization transaction, described more fully above, whereby AIG intends to fully repay and terminate the FRBNY Credit Facility. In addition, although the Department of the Treasury Commitment may also be used as a source of funding, primarily to support the capital needs of AIG's insurance company subsidiaries, AIG does not expect to utilize this Commitment for this purpose. Instead, AIG expects to use the Commitment as described under Repurchase and Exchange of the SPV Preferred Interests under Recapitalization above.

In the event the Recapitalization does not close, AIG expects that the FRBNY Credit Facility and the Department of the Treasury Commitment will continue to be available under the existing terms and conditions to support AIG Parent's Liquidity needs.

During the first nine months of 2010, ILFC made substantial progress in addressing its liquidity needs through a combination of new secured and unsecured debt issuances of approximately $8.8 billion and an extension of the maturity date of $2.16 billion of its $2.5 billion revolving credit facility from October 2011 to October 2012. Approximately $4.0 billion of the $4.4 billion in debt issued in the third quarter of 2010 was used to repay loans from AIG. AIG used the $4.0 billion received from ILFC to reduce the principal amount outstanding under the FRBNY Credit Facility. Availability of $318 million of debt issuances is subject to the satisfaction of certain

collateralization milestones. In addition, during the nine-month period ended September 30, 2010, ILFC agreed to sell 64 aircraft to third parties, of which 59 aircraft, with an aggregate book value of approximately $2.6 billion, met the criteria to be classified as held for sale. These sales are expected to generate approximately $2.3 billion in gross proceeds during 2010. During the nine-month period ended September 30, 2010, 35 of the 64 aircraft were sold, of which 31 had been classified as held for sale. At September 30, 2010, 28 aircraft were recorded in Assets held for sale on the Consolidated Balance Sheet and the sales are expected to be completed for most of these aircraft during the remainder of 2010.

Certain subsidiaries also have been dependent on the FRBNY and the Department of the Treasury (through AIG) to meet collateral posting requirements, to make debt repayments as amounts come due, and to meet capital or liquidity requirements. AIG expects that collateral posting requirements for AIG's Capital Markets business will continue to be reduced as that business continues to wind down.

AIG Parent has not had access to its traditional sources of financing through the public debt markets since September 2008. AIG anticipates re-entering the long-term debt market in the fourth quarter of 2010.

Management's Assessment and Conclusion

In assessing AIG's current financial position and developing operating plans for the future, management has made significant judgments and estimates with respect to the potential financial and liquidity effects of AIG's risks and uncertainties, including but not limited to:

- the ability of AIG to complete the transactions with the FRBNY, the Department of the Treasury and the Trust contemplated by the Recapitalization Agreement in Principle;

- the commitment of the FRBNY and the Department of the Treasury to the orderly restructuring of AIG and their commitment to continuing to work with AIG to maintain its ability to meet its obligations as they come due;

- the potential adverse effects on AIG's businesses that could result if there are further downgrades by rating agencies, including in particular, the uncertainty of estimates relating to the derivative transactions of Capital Markets, such as estimates of both the number of counterparties who may elect to terminate under contractual termination provisions and the amount that would be required to be paid in the event of a downgrade;

- the potential for declines in bond and equity markets;

- the pending sales of AGF, AIG Star and AIG Edison or the potential for delays in asset dispositions and reduction in the anticipated proceeds therefrom;

- the potential effect on AIG if the capital levels of its regulated and unregulated subsidiaries prove inadequate to support current business plans;

- the effect on AIG's businesses of continued compliance with the covenants of the FRBNY Credit Agreement and other agreements with the FRBNY and the Department of the Treasury;

AIG's highly leveraged capital structure;

the effect of the provisions of the Troubled Asset Relief Program (TARP) Standards for Compensation and Corporate Governance and the Determination Memoranda issued by the Office of the Special Master for TARP Executive Compensation with respect to AIG's compensation practices and structures on AIG's ability to retain and motivate key employees or hire new employees;

the potential that loss of key personnel could reduce the value of AIG's business and impair its ability to stabilize businesses and effect a successful asset disposition plan; and

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the potential for regulatory limitations on AIG's business in one or more countries, including as a result of the Recapitalization.

Based on the U.S. government's continuing commitment, the already completed transactions with the FRBNY, the closing of the AIA IPO and the sale of ALICO, management's plans and progress made to stabilize AIG's businesses and dispose of certain assets, and after consideration of the risks and uncertainties of such plans, management believes that it will have adequate liquidity to finance and operate AIG's businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months.

In connection with making the going concern assessment and conclusion, management and the Board of Directors of AIG confirmed in connection with the filing in February 2010 of the 2009 Annual Report on Form 10-K that "As first stated by the U.S. Treasury and the Federal Reserve in connection with the announcement of the AIG Restructuring Plan on March 2, 2009, the U.S. Government remains committed to continuing to work with AIG to maintain its ability to meet its obligations as they come due."

AIG's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or relating to the amounts and classification of liabilities that may be necessary should AIG be unable to continue as a going concern.

It is possible that the actual outcome of one or more of management's plans could be materially different, that one or more of management's significant judgments or estimates about the potential effects of these risks and uncertainties could prove to be materially incorrect and that AIG could fail to complete the Recapitalization. If one or more of these possible outcomes is realized and third party financing and existing liquidity sources, including those from the U.S. Government, are not sufficient, without continued support from the U.S. Government in the future there could exist substantial doubt about AIG's ability to continue as a going concern.

Accounting Policies

Transfers of Financial Assets

Securities purchased (sold) under agreements to resell (repurchase), at contract value: Securities purchased under agreements to resell and Securities sold under agreements to repurchase (other than those entered into by Asset Management's Direct Investment business) generally are accounted for as collateralized borrowing or lending transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. AIG's Direct Investment business carries such agreements at fair value based on market observable interest rates and credit spreads. AIG's policy is to take possession of or obtain a security interest in securities purchased under agreements to resell.

When AIG does not obtain cash collateral sufficient to fund substantially all of the cost of purchasing identical replacement securities during the term of the contract (generally less than 90 percent of the security value), AIG accounts for the transaction as a sale of the security and reports the obligation to repurchase the security as a derivative contract. Where securities are carried in the available for sale category, AIG records a gain or loss in income. Where changes in fair value of securities are recognized through income, no additional gain or loss is recognized. The fair value of securities transferred under repurchase agreements accounted for as sales was $2.5 billion and $2.3 billion at September 30, 2010 and December 31, 2009, respectively, and the related cash collateral obtained was $1.9 billion and $1.5 billion at September 30, 2010 and December 31, 2009, respectively.

AIG minimizes the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral value and generally requiring additional collateral to be deposited with AIG when necessary.

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Securities lending invested collateral, at fair value and Securities lending payable: In 2008, AIG exited the domestic securities lending program, and during the first quarter of 2010, AIG exited its foreign securities lending activities.

Recent Accounting Standards

Accounting Changes

AIG adopted the following accounting standards during the first nine months of 2010:

Accounting for Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard addressing transfers of financial assets that removes the concept of a qualifying special-purpose entity (QSPE) from the FASB Accounting Standards Codification and removes the exception that exempted transferors from applying the consolidation rules to QSPEs.

The new standard was effective for interim and annual periods beginning on January 1, 2010 for AIG. Earlier application was prohibited. The adoption of this standard increased both assets and liabilities by approximately $1.3 billion as a result of consolidating two previously unconsolidated QSPEs. The adoption of this new standard did not have a material effect on AIG's consolidated results of operations or cash flows.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued an accounting standard that amends the rules addressing consolidation of certain variable interest entities with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly affect the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The new standard also requires enhanced financial reporting by enterprises involved with variable interest entities.

The following table summarizes the two methods applied by AIG and the amount and classification in the Consolidated Balance Sheet of the assets and liabilities consolidated as a result of the adoption of the new standard on January 1, 2010:

	Transition Methods		
(in millions)	Fair Value Option	Carrying Value	Total
Assets:			
Bond trading securities, at fair value	$ 1,239	$ 1,262	$ 2,501
Mortgage and other loans receivable	-	1,980	1,980
Other invested assets	-	480	480
Other asset accounts	194	150	344
Assets held for sale	4,630	-	4,630
Total Assets	$ 6,063	$ 3,872	$ 9,935
Liabilities:			
FRBNY commercial paper funding facility	$ 1,088	$ -	$ 1,088
Other long-term debt	-	1,533	1,533
Other liability accounts	1	31	32
Liabilities held for sale	4,525	-	4,525

Total Liabilities	$ 5,614	$ 1,564	$ 7,178

The cumulative effect adjustment of electing the fair value option was not material to AIG's accumulated deficit.

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The following table summarizes the excess of amounts previously recorded upon the consolidation of previously unconsolidated VIEs, as a result of the adoption of the new standard on January 1, 2010:

(in billions)		
Assets	$	8.2
Liabilities		7.1
Redeemable noncontrolling interest		1.1
Equity:		
Accumulated deficit		0.2
Accumulated other comprehensive income		(0.3)
Other noncontrolling interests		0.1
Total liabilities and equity	$	8.2

In February 2010, the FASB also issued an update to the aforementioned accounting standard that defers the revised consolidation rules for variable interest entities with attributes of, or similar to, an investment company or money market fund. The primary effect of this deferral for AIG is that AIG will continue to apply the consolidation rules in effect before the amended guidance discussed above for its interests in eligible entities, such as certain mutual funds.

Accounting for Embedded Credit Derivatives

In March 2010, the FASB issued an accounting standard that amends the accounting for embedded credit derivative features in structured securities that redistribute credit risk in the form of subordination of one financial instrument to another. The new standard clarifies how to determine whether embedded credit derivative features, including those in collateralized debt obligations (CDOs), credit-linked notes (CLNs), synthetic CDOs and CLNs and other synthetic securities (e.g., commercial and residential mortgage-backed securities issued by securitization entities that wrote credit derivatives), are considered to be embedded derivatives that should be analyzed for potential bifurcation and separate accounting or, alternatively, for fair value accounting in connection with the application of the fair value option to the entire hybrid instrument. AIG adopted the new standard on July 1, 2010 and recorded a reclassification of $256 million of synthetic securities from Bonds available for sale to Bond trading securities and also reclassified a gain of $68 million from Accumulated other comprehensive income to Accumulated deficit as of July 1, 2010. Upon adoption, AIG accounts for its investments in synthetic securities otherwise requiring bifurcation at fair value, with changes in fair value recognized in earnings. The adoption of this new standard did not have a material effect on AIG's consolidated financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Consolidation of Investments in Separate Accounts

In April 2010, the FASB issued an accounting standard that clarifies that an insurance company should not combine any investments held in separate account interests with its interest in the same investment held in its general account when assessing the investment for consolidation. Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. The standard also provides guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation of an investment is required and the insurer's interest is through its general account in addition to any separate accounts. The new standard is effective for interim and annual periods beginning on January 1, 2011 for AIG. Earlier application is permitted. AIG expects to adopt this new standard on January 1, 2011. AIG does not expect the adoption of this new standard to have a material effect on its consolidated financial condition, results of operations or cash flows.

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Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued an accounting standard update that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts. The new standard clarifies how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The new standard is effective for interim and annual periods beginning on January 1, 2012 with early adoption permitted. Prospective or retrospective application is permitted. AIG has not determined whether it will adopt this new standard prospectively or retrospectively and is currently assessing the effect of adoption of this new standard on its consolidated financial condition, and results of operations and cash flows.

2. Segment Information

AIG reports the results of its operations through four reportable segments: General Insurance, Domestic Life Insurance & Retirement Services, Foreign Life Insurance & Retirement Services, and Financial Services. AIG evaluates performance based on pre-tax income (loss), excluding results from discontinued operations and net gains (losses) on sales of divested businesses, because AIG believes this provides more meaningful information on how its operations are performing.

In order to align financial reporting with changes made during the third quarter of 2010 to the manner in which AIG's chief operating decision makers review the businesses to make decisions about resources to be allocated and to assess performance, the following changes were made to AIG's segment information.

- As a result of AIG's entering into an agreement to sell AGF discussed in Note 1 herein, AGF is presented in discontinued operations and is no longer reported as part of the Financial Services segment. Following this classification of AGF as discontinued operations, AIG's remaining consumer finance businesses are now reported in AIG's Other operations category as part of Noncore businesses.

- As a result of AIG's entering into an agreement to sell AIG Star and AIG Edison, AIG Star and AIG Edison are presented in discontinued operations and are no longer reported as part of the Foreign Life Insurance & Retirement Services segment.

- During the third quarter of 2010, AIG's Asset Management group undertook the management responsibilities for non-derivative assets and liabilities of the Capital Markets businesses of the Financial Services segment. These assets and liabilities are being managed on a spread basis, in concert with the Matched Investment Program. Accordingly, gains and losses related to these assets and liabilities, primarily consisting of credit valuation adjustment gains and losses are reported in AIG's Other operations category as part of Asset Management Direct Investment Business.

- Intercompany interest related to loans from AIG Funding Inc. (AIG Funding) to AIGFP is no longer being allocated to Capital Markets from Other operations.

The remaining Capital Markets derivatives business continues to be reported in the Financial Services segment as part of Capital Markets results.

Prior periods have been revised to conform with the current period presentation for the above changes.

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The following table presents AIG's operations by reportable segment:

(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Total revenues:				
General Insurance	**$ 9,397**	$ 9,032	**$ 27,482**	$ 25,986
Domestic Life Insurance & Retirement Services	**3,944**	2,587	**10,147**	7,788
Foreign Life Insurance & Retirement Services	**4,021**	3,651	**10,691**	10,803
Financial Services	**1,182**	2,406	**3,399**	5,357
Other	**439**	1,987	**4,255**	7,886
Consolidation and eliminations	**108**	(59)	**(360)**	(1,034)
Total revenues	**$ 19,091**	$ 19,604	**$ 55,614**	$ 56,786
Income (loss) from continuing operations before income tax expense (benefit):				
General Insurance	**$ 865**	$ 682	**$ 3,226**	$ 1,763
Domestic Life Insurance & Retirement Services	**998**	(222)	**1,413**	(1,849)
Foreign Life Insurance & Retirement Services	**691**	531	**2,091**	1,317
Financial Services	**(89)**	1,150	**(267)**	1,532
Other	**(2,506)**	(3,064)	**(3,439)**	(9,025)
Consolidation and eliminations	**463**	406	**774**	438
Total income (loss) from continuing operations before income tax expense (benefit)	**$ 422**	$ (517)	**$ 3,798**	$ (5,824)

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The following table presents AIG's operations by operating segment:

(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
General Insurance				
Total revenues:				
Commercial Insurance	**$ 5,237**	$ 5,706	**$ 16,049**	$ 16,241
Foreign General Insurance	**4,160**	3,326	**11,433**	9,745
Total revenues	**$ 9,397**	$ 9,032	**$ 27,482**	$ 25,986
Pre-tax income:				
Commercial Insurance	**$ 517**	$ 593	**$ 1,778**	$ 941
Foreign General Insurance	**348**	89	**1,448**	822
Total pre-tax income	**$ 865**	$ 682	**$ 3,226**	$ 1,763
Domestic Life Insurance & Retirement Services				
Total revenues:				
Domestic Life Insurance	**$ 2,077**	$ 1,854	**$ 5,989**	$ 5,296
Domestic Retirement Services	**1,867**	733	**4,158**	2,492
Total revenues	**$ 3,944**	$ 2,587	**$ 10,147**	$ 7,788
Pre-tax income (loss):				
Domestic Life Insurance	**$ 343**	$ 230	**$ 854**	$ 202
Domestic Retirement Services	**655**	(452)	**559**	(2,051)
Total pre-tax income (loss)	**$ 998**	$ (222)	**$ 1,413**	$ (1,849)
Financial Services				
Total revenues:				
Aircraft Leasing	**$ 861**	$ 1,284	**$ 2,975**	$ 3,949
Capital Markets	**234**	1,027	**149**	941
Other, including intercompany adjustments	**87**	95	**275**	467
Total revenues	**$ 1,182**	$ 2,406	**$ 3,399**	$ 5,357
Pre-tax income (loss):				
Aircraft Leasing	**$ (214)**	$ 307	**$ (122)**	$ 1,033
Capital Markets	**148**	888	**(83)**	530
Other, including intercompany adjustments	**(23)**	(45)	**(62)**	(31)
Total pre-tax income (loss)	**$ (89)**	$ 1,150	**$ (267)**	$ 1,532

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(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Other				
Total revenues:				
Parent & Other	**$ (189)**	$ 29	**$ 1,239**	$ 526
Mortgage Guaranty	**252**	292	**832**	905
Asset Management:				
Direct Investment Business	**66**	313	**333**	202
Institutional Asset Management	**49**	(19)	**328**	659
Noncore businesses	**11**	241	**332**	4,074
Change in fair value of ML III	**301**	1,162	**1,410**	1,624
Consolidation and eliminations	**(51)**	(31)	**(219)**	(104)
Total revenues	**$ 439**	$ 1,987	**$ 4,255**	$ 7,886
Pre-tax loss:				
Parent & Other	**$ (2,550)**	$ (2,996)	**$ (4,887)**	$ (7,824)
Mortgage Guaranty	**(127)**	(465)	**214**	(1,433)
Asset Management:				
Direct Investment Business	**(85)**	136	**(114)**	(361)
Institutional Asset Management	**(36)**	(917)	**(110)**	(1,148)
Noncore businesses	**(9)**	16	**48**	117
Change in fair value of ML III	**301**	1,162	**1,410**	1,624
Total pre-tax loss	**$ (2,506)**	$ (3,064)	**$ (3,439)**	$ (9,025)

AIG's Foreign Life Insurance & Retirement Services operations consist of a single internal reporting unit.

3. Discontinued Operations and Held-for-Sale Classification

Discontinued Operations

Sales of Businesses

As discussed in Note 1 herein, during the first quarter of 2010, AIG entered into an agreement to sell ALICO for approximately $15.5 billion and in the third quarter of 2010, AIG entered into agreements to sell 80 percent of AGF for $125 million and its entire interest in AIG Star and AIG Edison for $4.8 billion. AIG will retain economic interests of 20 percent in the remaining AGF business and 16 percent of the voting rights. Based on other provisions of the sale, including lack of voting board representation, AIG will not have significant influence and therefore will carry AGF as a cost method investment. AGF has been reclassified as a discontinued operation as AIG is expected to have limited continuing involvement with AGF's operations. AIG Star and AIG Edison have also been reclassified as discontinued operations.

In the fourth quarter of 2009, AIG entered into an agreement to sell its 97.57 percent share of Nan Shan for approximately $2.15 billion. On August 31, 2010, the Taiwan Financial Supervisory Commission did not approve the sale of Nan Shan to the purchasers. Although the sale was not approved by regulatory authorities in Taiwan, AIG is pursuing other opportunities to divest Nan Shan and believes the proceeds from the sale of this business will approximate the amount agreed to in the fourth quarter of 2009. In addition, AIG believes it will complete the sale of Nan Shan within 12 months with similar terms and conditions. Therefore, AIG continues to classify Nan Shan as held-for-sale and as a

discontinued operation. This is based on management's expressed intent to exit the life insurance market in Taiwan.

The sale of ALICO closed on November 1, 2010 and AIG expects that the AGF sale will close by the end of 2010, and that the AIG Star and AIG Edison sales will close during the first quarter of 2011, in each case subject

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to regulatory approvals and customary closing conditions. Similarly, a sale of Nan Shan is expected to close within 12 months. Accordingly, the results of operations for these companies are presented as discontinued operations in AIG's Consolidated Statement of Income (Loss) for all periods presented and the aggregated assets and liabilities are presented separately as single line items in the asset and liability sections of the Consolidated Balance Sheet at September 30, 2010 and at December 31, 2009 for Nan Shan and September 30, 2010 for ALICO, AGF, AIG Star and AIG Edison. ALICO, Nan Shan, AIG Star and AIG Edison previously had been components of the Foreign Life Insurance & Retirement Services reportable segment and AGF previously had been a component of the Financial Services reportable segment.

Certain other sales completed during 2010 and 2009 were not classified as discontinued operations because AIG continued to generate significant direct revenue-producing or cost-generating cash flows from the businesses sold or because associated assets, liabilities and results of operations were not material, individually or in the aggregate, to AIG's consolidated financial position or results of operations.

The following table summarizes income (loss) from discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2010**	**2009**	**2010**	**2009**
Revenues:				
Premiums and other considerations	**$ 4,651**	$ 4,393	**$ 14,573**	$ 13,719
Net investment income	**1,515**	2,537	**5,163**	6,151
Net realized capital gains (losses)	**364**	(197)	**(63)**	(1,173)
Other income	**228**	599	**1,246**	1,741
Total revenues	**6,758**	7,332	**20,919**	20,438
Benefits, claims and expenses*	**7,151**	6,877	**23,437**	19,383
Interest expense allocation	**135**	143	**407**	487
Income (loss) from discontinued operations	**(528)**	312	**(2,925)**	568
Income (loss) on sales	**(1,970)**	-	**(2,371)**	-
Income (loss) from discontinued operations, before income tax expense (benefit)	**(2,498)**	312	**(5,296)**	568
Income tax expense (benefit)	**(654)**	218	**(967)**	(443)
Income (loss) from discontinued operations, net of tax	**$ (1,844)**	$ 94	**$ (4,329)**	$ 1,011

* *Includes a goodwill impairment charge of $3.3 billion for the nine months ended September 30, 2010 related to goodwill that had been allocated to ALICO as a consequence of ALICO's removal from the Japan and other operating segment. Also includes a goodwill impairment charge of $1.3 billion for the three and nine months ended September 30, 2010 related to the sales of AIG Star and AIG Edison.*

Interest Expense Allocation

In accordance with the terms of the FRBNY Credit Facility, net proceeds from dispositions, after taking into account taxes and transaction expenses, to the extent such proceeds do not represent capital of AIG's insurance subsidiaries required for regulatory or ratings purposes, are contractually required to be applied toward the repayment of the FRBNY Credit Facility as mandatory prepayments unless otherwise agreed with the FRBNY. Mandatory prepayments reduce the amount available to be borrowed under the FRBNY Credit Facility by the same amount as the prepayment. In conjunction with anticipated prepayments, an allocation of interest expense, including periodic amortization of the prepaid commitment fee asset, is included in Income (loss) from discontinued operations in the table above.

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Interest expense allocated to discontinued operations does not currently give effect to the provisions of the Recapitalization Agreement in Principle discussed in Note 1, as these transactions are subject to the negotiation and execution of definitive documentation. For this reason, no interest allocation to discontinued operations related to the ALICO proceeds was required as the original terms required that proceeds be used to reduce the liquidation preference of the SPV Preferred Interests owned by the FRBNY.

The interest expense allocated to discontinued operations was based on the anticipated net proceeds from the sales of AGF, AIG Star, AIG Edison and Nan Shan multiplied by the daily interest rate on the FRBNY Credit Facility for each respective period. The periodic amortization of the prepaid commitment fee allocated to discontinued operations was determined based on the ratio of funds committed to repay the FRBNY Credit Facility to the total available amount under the FRBNY Credit Facility.

If the Recapitalization is not completed, proceeds from the sale of ALICO will be used to reduce the liquidation preference of a portion of the preferred interests owned by the FRBNY in the special purpose vehicle holding ALICO.

Held-for-Sale Classification

In the third quarter of 2009, AIG entered into an agreement to sell its investment advisory and third party asset management business for $277 million cash at closing plus contingent consideration to be received over time. Prior to the closing of this transaction in the first quarter of 2010, this business was a component of the Asset Management business included within Other operations. This transaction met the criteria for held-for-sale accounting, and the assets and liabilities of this businesses were included as single line items in the asset and liability sections of the Consolidated Balance Sheet at December 31, 2009. This transaction did not meet the criteria for discontinued operations accounting because of a significant continuation of activities between AIG and the business sold.

In the third quarter of 2009, AIG entered into an agreement to combine its consumer finance business in Poland, conducted through AIG Bank Polska S.A., into the Polish consumer finance business of Santander Consumer Finance S.A. (SCB). The transaction closed on June 8, 2010. In exchange, AIG received an equity interest in SCB. Prior to the closing of the transaction, AIG Bank Polska S.A. was a component of the Financial Services reporting segment. This transaction met the criteria for held-for-sale accounting and, as a result, the assets and liabilities of these businesses were included as single line items in the asset and liability sections of the Consolidated Balance Sheet at December 31, 2009. This transaction did not meet the criteria for discontinued operations accounting because of the equity interest in SCB that AIG received in this transaction.

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The following table summarizes assets and liabilities held for sale:

(in millions)	September 30, 2010	December 31, 2009
Assets:		
Fixed maturity securities	$ 157,807	$ 34,495
Deferred policy acquisition costs	17,533	3,322
Equity securities	8,163	2,947
Other invested assets	11,224	4,256
Short-term investments	10,442	3,501
Separate account assets	3,733	3,467
Mortgage and other loans receivable, net	8,329	3,997
Finance receivables, net	15,964	-
Goodwill	9	25
Other assets	664	369
Total assets of businesses held for sale	233,868	56,379
Flight equipment*	974	-
Assets held for sale	$ 234,842	$ 56,379
Liabilities:		
Future policy benefits for life and accident and health insurance contracts	$ 85,865	$ 38,023
Policyholder contract deposits	91,571	3,133
Separate account liabilities	3,733	3,467
Other long-term debt	17,464	-
Other liabilities	10,690	3,976
Total liabilities of businesses held for sale	$ 209,323	$ 48,599

* *Represents 28 aircraft that remain to be sold under agreements for sale by ILFC as of September 30, 2010.*

4. Business Combination

On March 31, 2010, AIG, through a Chartis International subsidiary, purchased additional voting shares in Fuji Fire & Marine Insurance Company Limited (Fuji), a publicly traded Japanese insurance company with property/casualty insurance operations and a life insurance subsidiary. The acquisition of the additional voting shares for $145 million increased Chartis International's total voting ownership interest in Fuji from 41.7 percent to 54.8 percent, which resulted in Chartis International obtaining control of Fuji. This acquisition was made to increase Chartis International's share in the substantial Japanese insurance market, which is undergoing significant consolidation, and to achieve cost savings from synergies.

The purchase was accounted for under the acquisition method. Because the acquisition was completed on March 31, 2010, the initial accounting for the acquisition was incomplete when AIG issued its unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2010. The initial purchase price allocation was based on financial information that was available at the time to identify and estimate certain of the fair values of assets acquired, liabilities assumed, and noncontrolling interests of Fuji as of the acquisition date.

During the quarter ended June 30, 2010, Chartis International obtained additional information and revised the purchase price allocation, which included obtaining final appraisals of Fuji's insurance contracts, loans, certain real estate and intangible assets, and retrospectively adjusted the provisional amounts initially recorded. During the quarter ended September 30, 2010, adjustments to the previously reported purchase price allocation as of March 31, 2010 occurred as a result of new information that became known about market conditions in the life insurance industry in Japan that existed as of the acquisition date which, if known, would have reduced the amount recognized by Chartis International as of that date for the fair value of the business acquired (VOBA) of Fuji's life insurance subsidiary by approximately $132 million. Public announcements of

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capital raising initiatives during this period in response to new regulatory solvency rules announced by the Japanese regulator prior to the acquisition date but not yet adopted indicated that market participants are managing to the target solvency margin ratios under the new solvency margin rules instead of the current solvency margin rules. As a result, Chartis International revised its target capital assumption in its VOBA calculation based on the new standard. In addition, Chartis International increased the previously reported purchase price allocation as of March 31, 2010 by approximately $11 million as a result of new information received during the quarter ended September 30, 2010 regarding certain assets and liabilities of Fuji.

Additional adjustments to the purchase price allocation as of March 31, 2010 may occur if new information becomes known about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

The following table summarizes the estimated provisional fair values of major classes of identifiable assets acquired and liabilities assumed as of March 31, 2010 as previously reported and the revised amounts:

	At March 31, 2010	
(in millions)	**As Previously Reported**	**As Revised**
Identifiable net assets:		
Investments	$ 10,355	$ 10,355
Cash	14	14
Premiums and other receivables	752	752
Reinsurance assets	533	533
Value of business acquired	173	41
Real estate and other fixed assets	365	365
Other assets	89	88
Liability for unpaid claims and claims adjustment expense	(1,526)	(1,515)
Unearned premiums	(3,128)	(3,089)
Future policy benefits for life and accident and health insurance contracts	(1,968)	(1,968)
Policyholder contract deposits	(24)	(24)
Other policyholder funds	(3,483)	(3,483)
Other liabilities	(811)	(802)
Total preliminary identifiable net assets acquired	1,341	1,267
Less:		
Cash consideration transferred	145	145
Fair value of the noncontrolling interest	498	498
Fair value of AIG's previous equity interest in Fuji	292	292
Bargain purchase gain	$ 406	$ 332

During the three months ended March 31, 2010, AIG reported that in accordance with the acquisition method of accounting, Chartis International remeasured its equity interest in Fuji held prior to the acquisition of the additional shares to fair value, which resulted in a $25 million loss in the first quarter of 2010. The loss was recorded in Other realized capital gains (losses) in the Consolidated Statement of Income (Loss). The fair values of AIG's previously-held equity interest and the noncontrolling interest were based on Fuji's publicly-traded share price on the Tokyo Stock Exchange as of the acquisition date. Also during the first quarter of 2010, AIG reported that an insignificant amount of acquisition-related costs, consisting primarily of legal and transaction fees, was recorded in Other expenses in the Consolidated Statement of Income (Loss).

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During the quarter ended June 30, 2010, AIG reported that the acquisition resulted in a bargain purchase gain of approximately $406 million, which was included in the Consolidated Statement of Income (Loss). The adjustments to the revised purchase price allocation during the quarter ended September 30, 2010 reduced the bargain purchase gain by approximately $74 million ($121 million before deferred tax benefit of decrease in Fuji Life VOBA of $47 million) to $332 million. AIG will retrospectively revise its results of operations for the three months ended March 31, 2010 when presenting comparative financial information containing that period. Consequently, the bargain purchase gain is included in the Consolidated Statement of Income (Loss) for the nine months ended September 30, 2010, but no portion is included for the three months ended September 30, 2010. The bargain purchase gain is primarily attributable to the depressed market value of Fuji's common stock, which AIG believes is the result of macro-economic, capital market and regulatory factors in Japan coupled with Fuji's financial condition and results of operations. AIG anticipates that the bargain purchase gain will not be subject to U.S. or foreign income tax because the gain would only be recognized for tax purposes upon the sale of the Fuji shares.

The following table summarizes selected amounts from the Consolidated Statement of Income (Loss) for the three months ended March 31, 2010 (recast to present AIA as a continuing operation) revised to present the bargain purchase gain in that period:

	Three Months Ended March 31, 2010	
(dollars in millions, except per share data)	Before Revision*	As Revised
Total revenues	$ 17,852	$ 18,184
Income from continuing operations	1,878	2,210
Net income	2,099	2,431
Net income attributable to AIG	1,451	1,783
Net income attributable to AIG common shareholders	294	361
Income per common share attributable to AIG:		
Basic:		
Income from continuing operations	$ 1.85	$ 2.35
Diluted:		
Income from continuing operations	$ 1.85	$ 2.35

* *Represents amounts originally reported for the three months ended March 31, 2010, adjusted to conform to the current discontinued operations presentation.*

Fuji's financial information is reported to Chartis International on a quarter lag. Because the acquisition occurred on March 31, 2010, only revenue and earnings of Fuji for the three months ended June 30, 2010 are included in the Consolidated Statement of Income (Loss) for the three- and nine-month periods ended September 30, 2010.

The following unaudited summarized pro forma consolidated income statement information assumes that the acquisition of Fuji occurred as of January 1, 2009. The pro forma amounts are for comparative purposes only and may not necessarily reflect the results of operations that would have resulted had the acquisition been

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completed at the beginning of the applicable period and may not be indicative of the results that will be attained in the future.

(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Total revenues	**$ 19,091**	$ 20,385	**$ 57,554**	$ 58,509
Income (loss) from continuing operations	**(47)**	(146)	**2,876**	(5,255)
Net loss	**(1,891)**	(52)	**(1,453)**	(4,244)
Net income (loss) attributable to AIG	**(2,395)**	437	**(3,227)**	(3,878)
Net income (loss) attributable to AIG common shareholders	**(2,395)**	88	**(653)**	(3,878)
Income (loss) per common share attributable to AIG:				
Basic:				
Income (loss) from continuing operations	**(3.97)**	0.55	**1.70**	(35.82)
Diluted:				
Income (loss) from continuing operations	**(3.97)**	0.55	**1.70**	(35.82)

5. Fair Value Measurements

Fair Value Measurements on a Recurring Basis

AIG measures the following financial instruments at fair value on a recurring basis:

- trading and available for sale securities portfolios;
- certain mortgage and other loans receivable;
- derivative assets and liabilities;
- securities purchased/sold under agreements to resell/repurchase;
- non-traded equity investments and certain private limited partnerships and certain hedge funds included in other invested assets;
- certain short-term investments;

separate account assets;

certain policyholder contract deposits;

securities and spot commodities sold but not yet purchased;

certain trust deposits and deposits due to banks and other depositors;

certain long-term debt; and

certain hybrid financial instruments included in Other liabilities.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or those that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide

pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Fair Value Hierarchy

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that AIG has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. AIG does not adjust the quoted price for such instruments. Assets and liabilities measured at fair value on a recurring basis and classified as Level 1 include certain government and agency securities, actively traded listed common stocks and derivative contracts, most separate account assets and most mutual funds.

Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include certain government and agency securities, most investment-grade and high-yield corporate bonds, certain residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and collateralized debt obligations/asset backed securities (CDO/ABS), certain listed equities, state, municipal and provincial obligations, hybrid securities, securities purchased (sold) under agreements to resell (repurchase), mutual fund and hedge fund investments, certain derivative contracts, guaranteed investment agreements (GIAs) for the Direct Investment business, other long-term debt and physical commodities.

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain RMBS, CMBS and CDO/ABS, corporate debt, certain municipal and sovereign debt, certain derivative contracts (including Capital Markets' super senior credit default swap portfolio), policyholder contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG's non-financial instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the levels noted above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

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Valuation Methodologies

Incorporation of Credit Risk in Fair Value Measurements

AIG's Own Credit Risk. Fair value measurements for certain Direct Investment business' debt, GIAs, structured note liabilities and freestanding derivatives as well as Capital Markets derivatives incorporate AIG's own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to AIG at the balance sheet date by reference to observable AIG credit default swap or cash bond spreads. A counterparty's net credit exposure to AIG is determined based on master netting agreements, when applicable, which take into consideration all positions with AIG, as well as collateral posted by AIG with the counterparty at the balance sheet date.

Fair value measurements for embedded policy derivatives and policyholder contract deposits take into consideration that policyholder liabilities are senior in priority to general creditors of AIG and therefore are much less sensitive to changes in AIG credit default swap or cash issuance spreads.

Counterparty Credit Risk. Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for AIG to protect against its net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty credit default swap spreads, when available. When not available, other directly or indirectly observable credit spreads are used to derive the best estimates of the counterparty spreads. AIG's net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.

A CDS is a derivative contract that allows the transfer of third party credit risk from one party to the other. The buyer of the CDS pays an upfront and/or annual premium to the seller. The seller's payment obligation is triggered by the occurrence of a credit event under a specified reference security and is determined by the loss on that specified reference security. The present value of the amount of the annual and/or upfront premium therefore represents a market-based expectation of the likelihood that the specified reference party will fail to perform on the reference obligation, a key market observable indicator of non-performance risk (the CDS spread).

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

The cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to AIG by an independent third party. AIG utilizes an interest rate based on the benchmark London Interbank Offered Rate (LIBOR) curve to derive its discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, AIG believes this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

Fixed Maturity Securities Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value in its trading and available for sale portfolios. Market price data is generally obtained from dealer markets.

Management is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions. AIG employs independent third-party valuation service providers to

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gather, analyze, and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When AIG's valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a quote, which is generally non-binding, or by employing widely accepted internal valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted internal valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, benchmark yields, interest rate yield curves, credit spreads, currency rates, and other market-observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

AIG has processes designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. AIG assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, AIG may validate the reasonableness of fair values by comparing information obtained from AIG's valuation service providers to other third-party valuation sources for selected securities. AIG also validates prices for selected securities obtained from brokers through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

The methodology above is relevant for all fixed maturity securities; following are discussions of certain procedures unique to specific classes of securities.

Fixed Maturity Securities issued by Government Entities

For most debt securities issued by government entities, AIG obtains fair value information from independent third-party valuation service providers, as quoted prices are generally only available for limited debt securities issued by government entities. The fair values received from these valuation service providers may be based on a market approach using matrix pricing, which considers a security's relationship to other securities for which a quoted price in an active market may be available, or alternatively based on an income approach, which uses valuation techniques to convert future cash flows to a single present value amount.

Fixed Maturity Securities issued by Corporate Entities

For most debt securities issued by corporate entities, AIG obtains fair value information from third-party valuation service providers. For certain corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

RMBS, CMBS, CDOs and other ABS

Third-party valuation service providers also provide fair value information for the majority of AIG investments in RMBS, CMBS, CDOs and other ABS. Where pricing is not available from valuation service providers, AIG obtains fair value information from brokers. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to

structured securities, including ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies, and weighted average coupons and maturities. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. When the volume or level of market activity for an investment in RMBS, CMBS, CDOs or other ABS is limited, certain inputs used to determine fair value may not be observable in the market.

Maiden Lane II and Maiden Lane III

At their inception, ML II and ML III were valued and recorded at the transaction prices of $1 billion and $5 billion, respectively. Subsequently, the Maiden Lane Interests are valued using a discounted cash flow methodology that uses the estimated future cash flows of the Maiden Lane assets. AIG applies model-determined market discount rates to its interests. These discount rates are calibrated to the changes in the estimated asset values for the underlying assets commensurate with AIG's interests in the capital structure of the respective entities. Estimated cash flows and discount rates used in the valuations are validated, to the extent possible, using market observable information for securities with similar asset pools, structure and terms.

The fair value methodology used assumes that the underlying collateral in the Maiden Lane Interests will continue to be held and generate cash flows into the foreseeable future and does not assume a current liquidation of the assets underlying the Maiden Lane Interests. Other methodologies employed or assumptions made in determining fair value for these investments could result in amounts that differ significantly from the amounts reported.

Adjustments to the fair value of AIG's interest in ML II are recorded on the Consolidated Statement of Income (Loss) in Net investment income for AIG's Domestic Life Insurance companies. Adjustments to the fair value of AIG's interest in ML III are recorded on the Consolidated Statement of Income (Loss) in Net investment income and, beginning in the second quarter of 2009, were included in Other operations results, reflecting the contribution to an AIG subsidiary. Prior to the second quarter of 2009, such amounts had been included in Other Parent company results. AIG's Maiden Lane Interests are included in Bond trading securities, at fair value, on the Consolidated Balance Sheet.

As of September 30, 2010, AIG expected to receive cash flows (undiscounted) in excess of AIG's initial investment, and any accrued interest, in the Maiden Lane Interests over the remaining life of the investments after repayment of the first priority obligations owed to the FRBNY. AIG's cash flow methodology considers the capital structure of the collateral securities and their expected credit losses from the underlying asset pools. The fair values of the Maiden Lane Interests are most affected by changes in the discount rates and changes in the underlying estimated future collateral cash flow assumptions used in the valuation model.

The LIBOR interest rate curve changes are determined based on observable prices, interpolated or extrapolated to derive a LIBOR for a specific maturity term as necessary. The spreads over LIBOR for the Maiden Lane Interests (including collateral-specific credit and liquidity spreads) can change as a result of changes in market expectations about the future performance of these investments as well as changes in the risk premium that market participants would demand at the time of the transactions.

Changes in estimated future cash flows would primarily be the result of changes in expectations for defaults, recoveries, and prepayments on underlying loans.

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Changes in the discount rate or the estimated future cash flows used in the valuation would alter AIG's estimate of the fair value of the Maiden Lane Interests as shown in the table below.

Nine Months Ended September 30, 2010	**Fair Value Change**	
(in millions)	**Maiden Lane II**	**Maiden Lane III**
Discount Rates:		
200 basis point increase	$ (131)	$ (667)
200 basis point decrease	150	767
400 basis point increase	(246)	(1,248)
400 basis point decrease	323	1,653
Estimated Future Cash Flows:		
10% increase	304	850
10% decrease	(313)	(852)
20% increase	602	1,692
20% decrease	(637)	(1,690)

AIG believes that the ranges of discount rates used in these analyses are reasonable based on implied spread volatilities of similar collateral securities and implied volatilities of LIBOR interest rates. The ranges of estimated future cash flows were determined based on variability in estimated future cash flows implied by cumulative loss estimates for similar instruments. Because of these factors, the fair values of the Maiden Lane Interests are likely to vary, perhaps materially, from the amount estimated.

Equity Securities Traded in Active Markets Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its trading and available for sale portfolios. Market price data is generally obtained from exchange or dealer markets.

Direct Private Equity Investments Other Invested Assets

AIG initially estimates the fair value of equity instruments not traded in active markets, which includes direct private equity investments, by reference to the transaction price. This valuation is adjusted for changes in inputs and assumptions which are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity capital markets, and/or changes in financial ratios or cash flows. For equity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Hedge Funds, Private Equity Funds and Other Investment Partnerships Other Invested Assets

AIG initially estimates the fair value of investments in certain hedge funds, private equity funds and other investment partnerships by reference to the transaction price. Subsequently, AIG generally obtains the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. AIG considers observable market data and performs diligence procedures in validating the appropriateness of using the net asset value as a fair value measurement.

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Separate Account Assets

Separate account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

Other Assets Measured at Fair Value

Securities Purchased (Sold) under Agreements to Resell (Repurchase) AIG estimates the fair value of receivables (payables) arising from securities purchased (sold) under agreements to resell (repurchase) using dealer quotations, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the coupon rate, yield curves, prepayment rates and other relevant factors.

Short-term Investments For short-term investments that are measured at fair value, AIG obtains fair value information from independent third-party valuation service providers. The determination of fair value for these instruments is consistent with the process for fixed maturity securities, as discussed above.

Loans Receivable AIG estimates the fair value of mortgage and other loans receivable by using dealer quotations, discounted cash flow analyses and/or internal valuation models. The determination of fair value considers inputs such as interest rate, maturity, the borrower's creditworthiness, collateral, subordination, guarantees, past-due status, yield curves, credit curves, prepayment rates, market pricing for comparable loans and other relevant factors.

Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded over-the-counter (OTC). AIG generally values exchange-traded derivatives using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, AIG updates valuation inputs when corroborated by evidence such as similar market transactions, third party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

American International Group, Inc. and Subsidiaries

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Embedded Policy Derivatives

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG's historical experience. With respect to embedded policy derivatives in AIG's variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG's equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and determinations on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. These methodologies incorporate an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

AIGFP's Super Senior Credit Default Swap Portfolio

AIGFP values AIGFP's CDS transactions written on the super senior risk layers of designated pools of debt securities or loans using internal valuation models, third-party price estimates and market indices. The principal market was determined to be the market in which super senior credit default swaps of this type and size would be transacted, or have been transacted, with the greatest volume or level of activity. AIG has determined that the principal market participants, therefore, would consist of other large financial institutions who participate in sophisticated over-the-counter derivatives markets. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices.

The valuation of the super senior credit derivatives is challenging given the limitation on the availability of market observable information due to the lack of trading and price transparency in the structured finance market. These market conditions have increased the reliance on management estimates and judgments in arriving at an estimate of fair value for financial reporting purposes. Further, disparities in the valuation methodologies employed by market participants and the varying judgments reached by such participants when assessing volatile markets have increased the likelihood that the various parties to these instruments may arrive at significantly different estimates as to their fair values.

AIG's valuation methodologies for the super senior credit default swap portfolio have evolved over time in response to market conditions and the availability of market observable information. AIG has sought to calibrate the methodologies to available market information and to review the assumptions of the methodologies on a regular basis.

Regulatory capital portfolio: In the case of credit default swaps written to facilitate regulatory capital relief, AIG estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIG continues to reassess the expected maturity of the portfolio. AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of the Capital Accord of the Basel Committee on Banking Supervision (Basel I) that existed through the end of 2007 and which is in the process of being replaced by the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision (Basel II). It was expected that financial institution counterparties would have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they would have received little or no additional regulatory benefit from these

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CDS transactions, except in a small number of specific instances. However, the Basel Committee announced that it had agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame. In assessing the fair value of the regulatory capital CDS transactions, AIG also considers other market data, to the extent relevant and available. For further discussion, see Note 8 herein.

Multi-sector CDO portfolios: AIG uses a modified version of the Binomial Expansion Technique (BET) model to value AIGFP's credit default swap portfolio written on super senior tranches of multi-sector collateralized debt obligations (CDOs) of ABS, including maturity-shortening puts that allow the holders of the securities issued by certain CDOs to treat the securities as short-term 2a-7 eligible investments under the Investment Company Act of 1940 (2a-7 Puts). The BET model was developed in 1996 by a major rating agency to generate expected loss estimates for CDO tranches and derive a credit rating for those tranches, and remains widely used.

AIG has adapted the BET model to estimate the price of the super senior risk layer or tranche of the CDO. AIG modified the BET model to imply default probabilities from market prices for the underlying securities and not from rating agency assumptions. To generate the estimate, the model uses the price estimates for the securities comprising the portfolio of a CDO as an input and converts those estimates to credit spreads over current LIBOR-based interest rates. These credit spreads are used to determine implied probabilities of default and expected losses on the underlying securities. This data is then aggregated and used to estimate the expected cash flows of the super senior tranche of the CDO.

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. CDO collateral managers provided market prices for 62.7 percent of the underlying securities used in the valuation at September 30, 2010. When a price for an individual security is not provided by a CDO collateral manager, AIG derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third-party pricing services.

The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates. AIG employs a Monte Carlo simulation to assist in quantifying the effect on the valuation of the CDO of the unique aspects of the CDO's structure such as triggers that divert cash flows to the most senior part of the capital structure. The Monte Carlo simulation is used to determine whether an underlying security defaults in a given simulation scenario and, if it does, the security's implied random default time and expected loss. This information is used to project cash flow streams and to determine the expected losses of the portfolio.

In addition to calculating an estimate of the fair value of the super senior CDO security referenced in the credit default swaps using its internal model, AIG also considers the price estimates for the super senior CDO securities provided by third parties, including counterparties to these transactions, to validate the results of the model and to determine the best available estimate of fair value. In determining the fair value of the super senior CDO security referenced in the credit default swaps, AIG uses a consistent process which considers all available pricing data points and eliminates the use of outlying data points. When pricing data points are within a reasonable range an averaging technique is applied.

Corporate debt/Collateralized loan obligation (CLO) portfolios: In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIG uses a mathematical model that produces results that are closely aligned with prices received from third parties. This methodology is widely used by other market participants and uses the current market credit spreads of the names in the portfolios along with the base correlations implied by the current market prices of comparable tranches of the relevant market traded credit

indices as inputs. One transaction, representing two percent of the total notional amount of the corporate arbitrage transactions, is valued using third party quotes given its unique attributes.

AIG estimates the fair value of its obligations resulting from credit default swaps written on CLOs to be equivalent to the par value less the current market value of the referenced obligation. Accordingly, the value is determined by obtaining third-party quotes on the underlying super senior tranches referenced under the credit default swap contract.

Policyholder Contract Deposits

Policyholder contract deposits accounted for at fair value are measured using an earnings approach by taking into consideration the following factors:

- Current policyholder account values and related surrender charges;
- The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors; and
- A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

The change in fair value of these policyholder contract deposits is recorded as Policyholder benefits and claims incurred in the Consolidated Statement of Income (Loss).

Securities and Spot Commodities Sold But Not Yet Purchased

Fair values for securities sold but not yet purchased are based on current market prices. Fair values of spot commodities sold but not yet purchased are based on current market prices of reference spot futures contracts traded on exchanges.

Other Long-Term Debt

When fair value accounting has been elected, the fair value of non-structured liabilities is generally determined by using market prices from exchange or dealer markets, when available, or discounting expected cash flows using the appropriate discount rate for the applicable maturity. Such instruments are generally classified in Level 2 of the fair value hierarchy as substantially all inputs are readily observable. AIG determines the fair value of structured liabilities and hybrid financial instruments (where performance is linked to structured interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. Such instruments are classified in Level 2 or Level 3 depending on the observability of significant inputs to the model. In addition, adjustments are made to the valuations of both non-structured and structured liabilities to reflect AIG's own credit worthiness based on observable credit spreads of AIG.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about assets and liabilities measured at fair value on a recurring basis and indicates the level of the fair value measurement based on the levels of the inputs used:

At September 30, 2010 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[(a)]	Cash Collateral[(b)]	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 334	$ 7,304	$ -	$ -	$ -	$ 7,638
Obligations of states, municipalities and Political subdivisions	-	48,468	888	-	-	49,356
Non-U.S. governments	560	42,360	50	-	-	42,970
Corporate debt	7	149,137	2,888	-	-	152,032
Residential mortgage-backed securities (RMBS)	-	22,991	8,035	-	-	31,026
Commercial mortgage-backed securities (CMBS)	-	3,065	3,541	-	-	6,606
Collateralized Debt Obligations/Asset Backed Securities (CDO/ABS)	-	2,607	3,963	-	-	6,570
Total bonds available for sale	901	275,932	19,365	-	-	296,198
Bond trading securities:						
U.S. government and government sponsored entities	93	6,956	-	-	-	7,049
Obligations of states, municipalities and Political subdivisions	-	316	-	-	-	316
Non-U.S. governments	-	855	17	-	-	872
Corporate debt	-	2,824	106	-	-	2,930
RMBS	-	1,987	98	-	-	2,085
CMBS	-	2,473	265	-	-	2,738
CDO/ABS	-	3,725	9,134	-	-	12,859
Total bond trading securities	93	19,136	9,620	-	-	28,849
Equity securities available for sale:						
Common stock	8,917	29	55	-	-	9,001
Preferred stock	-	539	56	-	-	595
Mutual funds	1,298	370	2	-	-	1,670
Total equity securities available for sale	10,215	938	113	-	-	11,266
Equity securities trading:						
Common stock	941	108	1	-	-	1,050
Preferred stock	-	1	-	-	-	1
Mutual funds	4,301	134	-	-	-	4,435
Total equity securities trading	5,242	243	1	-	-	5,486
Mortgage and other loans receivable	-	178	-	-	-	178
Other invested assets[(c)]	2,267	1,438	8,074	-	-	11,779
Unrealized gain on swaps, options and forward transactions:						
Interest rate contracts	1	24,896	1,131	-	-	26,028
Foreign exchange contracts	-	221	14	-	-	235
Equity contracts	57	387	61	-	-	505

Commodity contracts	-	123	20	-	-	143
Credit contracts	-	2	423	-	-	425
Other contracts	10	702	81	-	-	793
Counterparty netting and cash collateral	-	-	-	(15,448)	(5,042)	(20,490)
Total unrealized gain on swaps, options and forward transactions	68	26,331	1,730	(15,448)	(5,042)	7,639
Securities purchased under agreements to resell	-	905	-	-	-	905
Short-term investments	4,408	13,774	-	-	-	18,182
Separate account assets	55,384	2,825	-	-	-	58,209
Other assets	-	14	-	-	-	14
Total	$ 78,578	$ 341,714	$ 38,903	$ (15,448)	$ (5,042)	$ 438,705
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 4,763	$ -	$ -	$ 4,763
Securities sold under agreements to repurchase	-	3,242	-	-	-	3,242
Securities and spot commodities sold but not yet purchased	75	88	-	-	-	163
Unrealized loss on swaps, options and forward transactions:						
Interest rate contracts	-	19,243	498	-	-	19,741
Foreign exchange contracts	-	446	1	-	-	447
Equity contracts	1	393	56	-	-	450
Commodity contracts	-	126	-	-	-	126
Credit contracts[(d)]	-	32	4,701	-	-	4,733
Other contracts	-	163	185	-	-	348
Counterparty netting and cash collateral	-	-	-	(15,448)	(3,942)	(19,390)
Total unrealized loss on swaps, options and forward transactions	1	20,403	5,441	(15,448)	(3,942)	6,455
Trust deposits and deposits due to banks and other depositors	-	15	-	-	-	15
Other long-term debt	-	12,296	1,004	-	-	13,300
Total	$ 76	$ 36,044	$ 11,208	$ (15,448)	$ (3,942)	$ 27,938

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

At December 31, 2009 *(in millions)*	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting[a]**	**Cash Collateral[b]**	**Total**
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 146	$ 5,077	$ -	$ -	$ -	$ 5,223
Obligations of states, municipalities and Political subdivisions	219	53,270	613	-	-	54,102
Non-U.S. governments	312	64,519	753	-	-	65,584
Corporate debt	10	187,337	4,791	-	-	192,138
Residential mortgage-backed securities (RMBS)	-	21,670	6,654	-	-	28,324
Commercial mortgage-backed securities (CMBS)	-	8,350	4,939	-	-	13,289
Collateralized Debt Obligations/Asset Backed Securities (CDO/ABS)	-	2,167	4,724	-	-	6,891
Total bonds available for sale	687	342,390	22,474	-	-	365,551
Bond trading securities:						
U.S. government and government sponsored entities	394	6,317	16	-	-	6,727
Obligations of states, municipalities and Political subdivisions	-	371	-	-	-	371
Non-U.S. governments	2	1,363	56	-	-	1,421
Corporate debt	-	5,205	121	-	-	5,326
RMBS	-	3,671	4	-	-	3,675
CMBS	-	2,152	325	-	-	2,477
CDO/ABS	-	4,381	6,865	-	-	11,246
Total bond trading securities	396	23,460	7,387	-	-	31,243
Equity securities available for sale:						
Common stock	7,254	9	35	-	-	7,298
Preferred stock	-	760	54	-	-	814
Mutual funds	1,348	56	6	-	-	1,410
Total equity securities available for sale	8,602	825	95	-	-	9,522
Equity securities trading:						
Common stock	1,254	104	1	-	-	1,359
Mutual funds	6,460	492	7	-	-	6,959
Total equity securities trading	7,714	596	8	-	-	8,318
Mortgage and other loans receivable	-	119	-	-	-	119
Other invested assets[c]	3,322	8,656	6,910	-	-	18,888
Unrealized gain on swaps, options and forward transactions	123	32,617	1,761	(19,054)	(6,317)	9,130
Securities purchased under agreements to resell	-	2,154	-	-	-	2,154
Short-term investments	1,898	22,077	-	-	-	23,975
Separate account assets	56,165	1,984	1	-	-	58,150
Other assets	-	18	270	-	-	288
Total	$ 78,907	$ 434,896	$ 38,906	$ (19,054)	$ (6,317)	$ 527,338
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 5,214	$ -	$ -	$ 5,214

Securities sold under agreements to repurchase	-	3,221	-	-	-	3,221
Securities and spot commodities sold but not yet purchased	159	871	-	-	-	1,030
Unrealized loss on swaps, options and forward transactions[(d)]	8	24,789	7,826	(19,054)	(8,166)	5,403
Trust deposits and deposits due to banks and other depositors	-	15	-	-	-	15
Federal Reserve Bank of New York Commercial Paper Funding Facility	-	2,742	-	-	-	2,742
Other long-term debt	-	12,314	881	-	-	13,195
Total	$ 167	$ 43,952	$ 13,921	$ (19,054)	$ (8,166)	$ 30,820

(a)

Represents netting of derivative exposures covered by a qualifying master netting agreement.

(b)

Represents cash collateral posted and received. Securities collateral posted for derivative transactions that is reflected in Fixed maturity securities in the Consolidated Balance Sheet, and collateral received, not reflected in the Consolidated Balance Sheet, were $1.7 billion and $148 million, respectively, at September 30, 2010 and $1.6 billion and $289 million, respectively, at December 31, 2009.

(c)

Approximately 6 percent of the fair value of the assets recorded as Level 3 relates to various private equity, real estate, hedge fund and fund-of-funds investments that are consolidated by AIG at both September 30, 2010 and December 31, 2009. AIG's ownership in these funds represented 65.4 percent, or $1.5 billion, of Level 3 assets at September 30, 2010 and 71.1 percent, or $1.6 billion, of Level 3 assets at December 31, 2009.

(d)

Included in Level 3 is the fair value derivative liability of $4.0 billion and $4.8 billion at September 30, 2010 and December 31, 2009, respectively, on the Capital Markets super senior credit default swap portfolio.

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Transfers of Level 1 and Level 2 Assets and Liabilities

Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the three- and nine-month periods ended September 30, 2010, AIG transferred certain assets from Level 1 to Level 2, including approximately $193 million and $264 million, respectively, of investments in U.S. government and government sponsored entities. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. AIG had no significant transfers from Level 2 to Level 1 during the three- and nine-month periods ended September 30, 2010.

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three- and nine-month periods ended September 30, 2010 and 2009 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in the Consolidated Statement of Income (Loss) during those periods related to the Level 3 assets and liabilities that remained on the Consolidated Balance Sheet at September 30, 2010 and 2009:

(in millions)	Balance Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income[(b)]	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements-Net[(c)]	Transfers[(d)]	Activity of Discontinued Operations	Reclassified to Assets of Businesses Held for Sale	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period
Three Months Ended September 30, 2010									
Assets:									
Bonds available for sale:									
Obligations of states, municipalities and political subdivisions	$ 1,086	$ (10)	$ 37	$ (94)	$ (131)	$ -	$ -	$ 888	$ -
Non-U.S. governments	42	-	3	4	1	-	-	50	-
Corporate debt	3,167	(23)	35	(58)	(117)	(66)	(50)	2,888	-
RMBS	7,114	(285)	609	(223)	828	46	(54)	8,035	-
CMBS	4,576	(185)	612	(153)	(391)	(37)	(881)	3,541	-
CDO/ABS	4,837	14	126	(354)	(449)	(64)	(147)	3,963	-
Total bonds available for sale	20,822	(489)	1,422	(878)	(259)	(121)	(1,132)	19,365	-
Bond trading securities:									
Non-U.S. governments	7	-	-	16	(6)	-	-	17	-
Corporate debt	103	7	-	(4)	-	-	-	106	3
RMBS	5	(25)	-	-	118	-	-	98	(31)
CMBS	226	36	-	3	-	-	-	265	29
CDO/ABS	8,523	496	-	114	1	-	-	9,134	215

Total bond trading securities	8,864	514	-	129	113	-	-	9,620	216
Equity securities available for sale:									
Common stock	32	(1)	9	7	7	1	-	55	-
Preferred stock	53	-	1	2	-	-	-	56	-
Mutual funds	20	-	1	(11)	(8)	-	-	2	-
Total equity securities available for sale	105	(1)	11	(2)	(1)	1	-	113	-
Equity securities trading:									
Common stock	1	-	-	-	-	-	-	1	-
Total equity securities trading	1	-	-	-	-	-	-	1	-
Other invested assets	6,780	77	114	(6)	1,390	153	(434)	8,074	(67)
Separate account assets	1	-	-	-	(1)	-	-	-	-
Total	$ 36,573	$ 101	$ 1,547	$ (757)	$ 1,242	$ 33	$ (1,566)	$ 37,173	$ 149
Liabilities:									
Policyholder contract deposits	$ (4,510)	$ (60)	$ -	$ (193)	$ -	$ -	$ -	$ (4,763)	$ 222
Unrealized loss on swaps, options and forward transactions, net:									
Interest rate contracts	151	(520)	1	903	98	-	-	633	185
Foreign exchange contracts	24	5	(2)	2	-	2	(18)	13	(4)
Equity contracts	-	34	-	(29)	-	-	-	5	1
Commodity contracts	17	5	-	(2)	-	-	-	20	(4)
Credit contracts	(4,583)	208	-	98	(1)	-	-	(4,278)	(237)
Other contracts	(107)	11	-	(16)	8	-	-	(104)	13
Total unrealized loss on swaps, options and forward transactions, net	(4,498)	(257)	(1)	956	105	2	(18)	(3,711)	(46)
Other long-term debt	(954)	(139)	-	68	21	-	-	(1,004)	177
Total	$ (9,962)	$ (456)	$ (1)	$ 831	$ 126	$ 2	$ (18)	$ (9,478)	$ 353

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Balance Beginning of Period[a]	Net Realized and Unrealized Gains (Losses) Included in Income[b]	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements-Net[c]	Transfers[d]	Activity of Discontinued Operations	Reclassified to Assets of Businesses Held for Sale	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period
Nine Months Ended September 30, 2010									
Assets:									
Bonds available for sale:									
Obligations of states, municipalities and political subdivisions	$ 613	$ (31)	$ 24	$ 64	$ 218	$ 1	$ (1)	$ 888	$ -
Non-U.S. governments	753	-	3	28	6	(43)	(697)	50	-
Corporate debt	4,791	(33)	137	(293)	(1,505)	(113)	(96)	2,888	-
RMBS	6,654	(526)	1,601	(529)	878	140	(183)	8,035	-
CMBS	4,939	(767)	1,687	(307)	56	842	(2,909)	3,541	-
CDO/ABS	4,724	88	401	(514)	(343)	(113)	(280)	3,963	-
Total bonds available for sale	22,474	(1,269)	3,853	(1,551)	(690)	714	(4,166)	19,365	-
Bond trading securities:									
U.S. government and government sponsored entities	16	-	-	-	-	(16)	-	-	-
Non-U.S. governments	56	-	-	(35)	2	(6)	-	17	-
Corporate debt	121	(9)	-	(4)	-	(2)	-	106	(8)
RMBS	4	(24)	-	-	118	-	-	98	(26)
CMBS	325	96	-	(92)	34	(22)	(76)	265	146
CDO/ABS	6,865	2,287	-	(22)	4	40	(40)	9,134	1,093
Total bond trading securities	7,387	2,350	-	(153)	158	(6)	(116)	9,620	1,205
Equity securities available for sale:									
Common stock	35	(2)	10	2	10	-	-	55	-
Preferred stock	54	(5)	5	1	1	-	-	56	-
Mutual funds	6	-	-	(3)	(1)	-	-	2	-

Total equity securities available for sale	**95**	**(7)**	**15**	**-**	**10**	**-**	**-**	**113**	**-**
Equity securities trading:									
Common stock	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**
Mutual funds	**7**	**-**	**-**	**-**	**-**	**(1)**	**(6)**	**-**	**-**
Total equity securities trading	**8**	**-**	**-**	**-**	**-**	**(1)**	**(6)**	**1**	**-**
Other invested assets	**6,910**	**62**	**493**	**(930)**	**1,721**	**406**	**(588)**	**8,074**	**(258)**
Other assets	**270**	**-**	**-**	**(270)**	**-**	**-**	**-**	**-**	**-**
Separate account assets	**1**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**-**
Total	**$ 37,145**	**$ 1,136**	**$ 4,361**	**$ (2,904)**	**$ 1,199**	**$ 1,113**	**$ (4,877)**	**$ 37,173**	**$ 947**
Liabilities:									
Policyholder contract deposits	**$ (5,214)**	**$ (684)**	**$ -**	**$ (461)**	**$ -**	**$ (144)**	**$ 1,740**	**$ (4,763)**	**$ (378)**
Unrealized loss on swaps, options and forward transactions, net:									
Interest rate contracts	**(1,469)**	**13**	**-**	**1,098**	**991**	**-**	**-**	**633**	**236**
Foreign exchange contracts	**29**	**4**	**-**	**(1)**	**-**	**(1)**	**(18)**	**13**	**(7)**
Equity contracts	**74**	**(29)**	**-**	**(60)**	**20**	**-**	**-**	**5**	**2**
Commodity contracts	**22**	**-**	**-**	**(2)**	**-**	**-**	**-**	**20**	**-**
Credit contracts	**(4,545)**	**534**	**-**	**(265)**	**(2)**	**-**	**-**	**(4,278)**	**(740)**
Other contracts	**(176)**	**45**	**-**	**(3)**	**23**	**(3)**	**10**	**(104)**	**(12)**
Total unrealized loss on swaps, options and forward transactions, net	**(6,065)**	**567**	**-**	**767**	**1,032**	**(4)**	**(8)**	**(3,711)**	**(521)**
Other long-term debt	**(881)**	**(201)**	**-**	**690**	**(612)**	**-**	**-**	**(1,004)**	**235**
Total	**$ (12,160)**	**$ (318)**	**$ -**	**$ 996**	**$ 420**	**$ (148)**	**$ 1,732**	**$ (9,478)**	**$ (664)**
Three Months Ended September 30, 2009									
Assets:									
Bonds available for sale:									
U.S. government and government sponsored	$ 2	$ -	$ -	$ (2)	$ -	$ -	$ -	$ -	$ -

entities									
Obligations of states, municipalities and political subdivisions	802	(6)	33	60	(8)	(6)	-	875	-
Non-U.S. governments	628	4	1	(11)	(2)	52	-	672	-
Corporate debt	6,156	44	224	(440)	28	(101)	-	5,911	-
RMBS	5,659	(309)	533	(186)	765	1	-	6,463	-
CMBS	2,187	(219)	341	(34)	882	288	-	3,445	-
CDO/ABS	3,378	(138)	1,004	22	126	7	-	4,399	-
Total bonds available for sale	18,812	(624)	2,136	(591)	1,791	241	-	21,765	-

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Balance Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income[(b)]	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements-Net[(c)]	Transfers[(d)]	Activity of Discontinued Operations	Reclassified to Assets of Businesses Held for Sale	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period
Bond trading securities:									
U.S. government and government sponsored entities	11	-	-	-	-	4	-	15	-
Non-U.S. governments	5	-	-	-	50	1	-	56	-
Corporate debt	214	17	-	(1)	(48)	13	-	195	21
RMBS	3	1	-	(1)	-	-	-	3	18
CMBS	37	(42)	-	(16)	110	76	-	165	(8)
CDO/ABS	4,991	1,486	-	126	-	2	-	6,605	853
Total bond trading securities	5,261	1,462	-	108	112	96	-	7,039	884
Equity securities available for sale:									
Common stock	33	-	4	5	(1)	-	-	41	-
Preferred stock	48	-	2	4	1	-	-	55	-
Mutual funds	1	-	-	-	-	-	-	1	-
Total equity securities available for sale	82	-	6	9	-	-	-	97	-
Equity securities trading:									
Common stock	1	-	-	-	-	-	-	1	-
Mutual funds	16	-	-	-	-	(2)	-	14	-
Total equity securities trading	17	-	-	-	-	(2)	-	15	-
Other invested assets	8,418	(461)	397	(24)	(20)	(44)	-	8,266	(368)
Short-term investments	3	-	-	33	(3)	-	-	33	-
Other assets	288	(16)	-	17	-	-	-	289	(16)

Separate account assets	916	-	-	1	-	39	-	956	-
Total	$ 33,797	$ 361	$ 2,539	$ (447)	$ 1,880	$ 330	$ -	$ 38,460	$ 500
Liabilities:									
Policyholder contract deposits	$ (7,273)	$ (1,372)	$ -	$ (155)	$ -	$ (17)	$ -	$ (8,817)	$ 2,239
Unrealized loss on swaps, options and forward transactions, net	(8,944)	661	1	667	109	-	-	(7,506)	1,003
Other long-term debt	(667)	(177)	-	17	(9)	-	-	(836)	178
Total	$ (16,884)	$ (888)	$ 1	$ 529	$ 100	$ (17)	$ -	$ (17,159)	$ 3,420
Nine Months Ended September 30, 2009									
Assets:									
Bonds available for sale:									
U.S. government and government sponsored entities	$ 2	$ -	$ -	$ (2)	$ -	$ -	$ -	$ -	$ -
Obligations of states, municipalities and political subdivisions	861	(19)	(10)	48	(5)	-	-	875	-
Non-U.S. governments	601	2	(2)	(2)	(65)	138	-	672	-
Corporate debt	6,103	(1)	929	(831)	(111)	(178)	-	5,911	-
RMBS	6,156	(847)	1,012	(484)	626	-	-	6,463	-
CMBS	1,663	(208)	297	(328)	972	1,049	-	3,445	-
CDO/ABS	3,440	(583)	1,075	(291)	731	27	-	4,399	-
Total bonds available for sale	18,826	(1,656)	3,301	(1,890)	2,148	1,036	-	21,765	-
Bond trading securities:									
U.S. government and government sponsored entities	17	-	-	-	-	(2)	-	15	-
Non-U.S. governments	-	-	-	-	50	6	-	56	-
Corporate debt	261	(10)	-	(66)	1	9	-	195	15
RMBS	8	(4)	-	(1)	-	-	-	3	14
CMBS	45	(48)	-	(18)	110	76	-	165	(14)
CDO/ABS	6,656	374	-	(425)	-	-	-	6,605	1,489
Total bond trading securities	6,987	312	-	(510)	161	89	-	7,039	1,504

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Balance Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income[(b)]	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements-Net[(c)]	Transfers[(d)]	Activity of Discontinued Operations	Reclassified to Assets of Businesses Held for Sale	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period
Equity securities available for sale:									
Common stock	55	(21)	11	5	(9)	-	-	41	-
Preferred stock	54	(6)	(2)	3	6	-	-	55	-
Mutual funds	2	-	(1)	-	-	-	-	1	-
Total equity securities available for sale	111	(27)	8	8	(3)	-	-	97	-
Equity securities trading:									
Common stock	1	-	-	-	-	-	-	1	-
Mutual funds	2	-	-	-	-	12	-	14	-
Total equity securities trading	3	-	-	-	-	12	-	15	-
Other invested assets	11,168	(1,774)	(1,935)	863	(18)	(38)	-	8,266	(1,532)
Short-term investments	-	-	-	33	-	-	-	33	-
Other assets	325	(25)	-	(11)	-	-	-	289	(24)
Separate account assets	830	-	-	1	-	125	-	956	-
Total	$ 38,250	$ (3,170)	$ 1,374	$ (1,506)	$ 2,288	$ 1,224	$ -	$ 38,460	$ (52)
Liabilities:									
Policyholder contract deposits	$ (5,458)	$ (2,896)	$ -	$ (433)	$ 140	$ (170)	$ -	$ (8,817)	$ 3,822
Securities sold under agreements to	(85)	4	-	81	-	-		-	-

repurchase									
Unrealized loss on swaps, options and forward transactions, net	(10,570)	367	(5)	3,289	(584)	(3)	-	(7,506)	4,196
Other long-term debt	(1,147)	76	-	151	84	-	-	(836)	2
Total	$ (17,260)	$ (2,449)	$ (5)	$ 3,088	$ (360)	$ (173)	$ -	$ (17,159)	$ 8,020

(a)

Total Level 3 derivative exposures have been netted in these tables for presentation purposes only.

(b)

Net realized and unrealized gains and losses related to Level 3 items shown above are reported in the Consolidated Statement of Income (Loss) primarily as follows:

Major Category of Assets/Liabilities	**Consolidated Statement of Income (Loss) Line Items**
Bonds available for sale	Net realized capital gains (losses)
Bond trading securities	Net investment income Other income
Other invested assets	Net realized capital gains (losses) Other income
Policyholder contract deposits	Policyholder benefits and claims incurred Net realized capital gains (losses)
Unrealized loss on swaps, options and forward transactions, net	Unrealized market valuation gains (losses) on Capital Markets super senior credit default swap portfolio Net realized capital gains (losses) Other income

(c)

Included within purchases, sales, issuances and settlements-net is approximately $210 million transferred from bonds available for sale to bond trading securities for the three- and nine-month periods ending September 30, 2010.

(d)

Transfers for the three months ended September 30, 2010 are comprised of gross transfers into Level 3 assets and liabilities of $2.7 billion and gross transfers out of Level 3 assets and liabilities of $1.7 billion. Transfers for the nine months ended September 30, 2010 are comprised of gross transfers into Level 3 assets and liabilities of $6.5 billion and gross transfers out of Level 3 assets and liabilities of $5.7 billion. AIG's policy is to record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income and as shown in the table above exclude $29.3 million of net gains related to assets and liabilities transferred into Level 3 during the three months ended September 30, 2010, and include $35.6 million of net gains related to assets and liabilities transferred out of Level 3 during the three months ended September 30, 2010 and exclude $23.6 million of net losses related to assets and liabilities transferred into Level 3 during the nine months ended September 30, 2010, and include $176.0 million of net gains related to assets and liabilities transferred out of Level 3 during the nine months ended September 30, 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at September 30, 2010 and 2009 may include changes in fair value that were attributable to both observable inputs (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

AIG's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include: circumstances in which market activity has dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available, and substantial price variances in quotations among market participants exist.

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability.

During the three- nine-month periods ended September 30, 2010, AIG transferred into Level 3 approximately $2.7 billion and $5.7 billion, respectively, of assets consisting of certain ABS, CMBS and RMBS, as well as private placement corporate debt, certain municipal bonds related to affordable housing partnerships and investment partnerships. The transfers into Level 3 related to investments in ABS, RMBS and CMBS were due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. Transfers into Level 3 for private placement corporate debt were primarily the result of AIG overriding third party matrix pricing information downward to better reflect the additional risk premium associated with those securities that AIG believes was not captured in the matrix. Certain municipal bonds were transferred into Level 3 based on limited market activity for the particular issuances and related limitations on observable inputs for their valuation. Investment partnerships transferred into Level 3 were primarily comprised of certain hedge funds with limited market activity due to fund-imposed redemption restrictions.

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable, or when a long-term interest rate significant to a valuation becomes short-term and thus observable. During the three- and nine-month periods ended September 30, 2010, AIG transferred approximately $1.6 billion and $4.5 billion, respectively, of assets out of Level 3. These transfers out of Level 3 are primarily related to investments in private placement corporate debt, investments in certain ABS, RMBS, CMBS and CDOs and certain investment partnerships. Transfers out of Level 3 for private placement corporate debt and for ABS were primarily the result of AIG using observable pricing information or a third party pricing quote that appropriately reflects the fair value of those securities, without the need for adjustment based on AIG's own assumptions regarding the characteristics of a specific security or the current liquidity in the market. Transfers out of Level 3 for RMBS investments were primarily due to increased usage of pricing from valuation service providers that were reflective of market activity, where previously an internally adjusted price had been used. Similarly, transfers out of Level 3 for CMBS and CDO investments backed by corporate credits were primarily the result of AIG using observable pricing information or a third party pricing quote that appropriately reflects the fair value of those securities, without the need for adjustment based on AIG's own assumptions regarding the characteristics of a specific security or the current liquidity in the market. Transfers out of Level 3 for both the CMBS and CDO investments were primarily due to increased observations of market transactions and price information for those securities. Certain investment partnerships were transferred out of Level 3 primarily due to the availability of information related to the underlying assets of these funds.

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AIG had no significant transfers into Level 3 liabilities during the three-month period ended September 30, 2010. During the nine-month period ended September 30, 2010, AIG transferred into Level 3 approximately $810 million of liabilities, primarily related to term notes and hybrid term notes, as well as certain derivatives. Term notes and hybrid term notes were transferred into Level 3 primarily due to an unobservable credit linked component comprising a significant amount of the valuations. As AIG provides net presentation of carrying values for its derivative positions in the table above, transfers out of Level 3 liabilities, which totaled approximately $129 million and $1.2 billion for the three- and nine-month periods ended September 30, 2010, respectively, primarily relate to certain derivative assets transferred into Level 3 due to the lack of observable inputs on certain interest rate swaps. Other transfers out of Level 3 liabilities were due to movement in market variables.

AIG uses various hedging techniques to manage risks associated with certain positions, including those classified within Level 3. Such techniques may include the purchase or sale of financial instruments that are classified within Level 1 and/or Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities classified within Level 3 presented in the table above do not reflect the related realized or unrealized gains (losses) on hedging instruments that are classified within Level 1 and/or Level 2.

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Investments in Certain Entities Carried at Fair Value Using Net Asset Value per Share

The following table includes information related to AIG's investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring or non-recurring basis, AIG uses the net asset value per share as a practical expedient for fair value.

		September 30, 2010[(a)]		December 31, 2009	
(in millions)	Investment Category Includes	Fair Value Using Net Asset Value	Unfunded Commitments	Fair Value Using Net Asset Value	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage.	$ 3,060	$ 1,299	$ 3,166	$ 1,553
Non-U.S.	Investments that focus primarily on Asian and European based buyouts, expansion capital, special situations, turnarounds, venture capital, mezzanine and distressed opportunities strategies.	208	117	543	103
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company.	354	64	427	48
Fund of funds	Funds that invest in other funds, which invest in various diversified strategies	-	-	334	-
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled.	260	72	238	91
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies.	316	154	235	157
Total private equity funds		4,198	1,706	4,943	1,952
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions, and other reorganizations.	1,268	2	1,426	-
Long-short	Securities the manager believes are undervalued, with corresponding short positions to hedge market risk.	973	-	955	-
Relative value	Funds that seek to benefit from market inefficiencies and value discrepancies between related investments.	238	-	286	-
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled.	372	21	272	-
Other	Non-U.S. companies, futures and commodities, macro and multi-strategy and industry-focused strategies.	619	-	785	-
Total hedge funds		3,470	23	3,724	-
Global real estate funds	U.S. and Non-U.S. commercial real estate.	117	20	929	64

Total	$ 7,785[(b)]	$ 1,749	$ 9,596[(b)]	$ 2,016

(a) *Due to the sale of the investment advisory business in the first quarter of 2010, certain partnerships and hedge funds are no longer carried at fair value and are not included in this table.*

(b) *Includes investments of entities classified as held for sale of approximately $466 million and $1.1 billion at September 30, 2010 and December 31, 2009, respectively.*

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At September 30, 2010, private equity fund investments included above are not redeemable during the lives of the funds, and have expected remaining lives that extend in some cases more than 10 years. At that date, 37 percent of the total above had expected remaining lives of less than three years, 41 percent between 3 and 7 years, and 22 percent between 7 and 10 years. Expected lives are based upon legal maturity, which can be extended at the fund manager's discretion, typically in one-year increments.

At September 30, 2010, hedge fund investments included above are redeemable monthly (20 percent), quarterly (49 percent), semi-annually (4 percent) and annually (27 percent), with redemption notices ranging from 1 day to 180 days. More than 85 percent require redemption notices of less than 90 days. Investments representing approximately 68 percent of the value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these restrictions were put in place in 2008, and do not have stated end dates. The remaining restrictions, which have pre-defined end dates, are generally expected to be lifted by the end of 2012. The partial restrictions relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid. In order to treat investors fairly and to accommodate subsequent subscription and redemption requests, the fund manager isolates these illiquid assets from the rest of the fund until the assets become liquid.

At September 30, 2010, global real estate fund investments included above are not redeemable during the lives of the funds, and have expected remaining lives that extend in some cases more than 10 years. At that date, 58 percent of these funds had expected remaining lives of less than three years, 14 percent between 3 and 7 years, and 28 percent between 7 and 10 years. Expected lives are based upon legal maturity, which can be extended at the fund manager's discretion, typically in one-year increments.

Fair Value Measurements on a Non-Recurring Basis

AIG also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments, life settlement contracts, flight equipment primarily under operating leases, collateral securing foreclosed loans and real estate and other fixed assets, goodwill, and other intangible assets. AIG uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

Cost and Equity-Method Investments: When AIG determines that the carrying value of these assets may not be recoverable, AIG records the assets at fair value with the loss recognized in earnings. In such cases, AIG measures the fair value of these assets using the techniques discussed in Valuation Methodologies, above, for Other invested assets.

Life Settlement Contracts: AIG measures the fair value of individual life settlement contracts (which are included in other invested assets) whenever the carrying value plus the undiscounted future costs that are expected to be incurred to keep the life settlement contract in force exceed the expected proceeds from the contract. In those situations, the fair value is determined on a discounted cash flow basis, incorporating current life expectancy assumptions. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life settlement contract and AIG's estimate of the risk margin an investor in the contracts would require.

Flight Equipment Primarily Under Operating Leases: When AIG determines the carrying value of its commercial aircraft may not be recoverable, AIG records the aircraft at fair value with the loss recognized in earnings. AIG measures the fair value of its commercial aircraft using an earnings approach based on the present value of all cash flows from existing and projected lease payments (based on historical experience and current expectations regarding market participants) for the period extending to the end of the aircraft's economic life in its highest and best use configuration, plus its disposition value.

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Collateral Securing Foreclosed Loans and Real Estate and Other Fixed Assets: When AIG takes collateral in connection with foreclosed loans, AIG generally bases its estimate of fair value on the price that would be received in a current transaction to sell the asset by itself, by reference to observable transactions for similar assets.

Goodwill: AIG tests goodwill annually for impairment or more frequently whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. When AIG determines goodwill may be impaired, AIG uses techniques including market-based earning multiples of peer companies, discounted expected future cash flows, appraisals, or, in the case of reporting units being considered for sale, third-party indications of fair value of the reporting unit, if available, to determine the amount of any impairment.

Long-Lived Assets: AIG tests its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of a long-lived asset may not be recoverable. AIG measures the fair value of long-lived assets based on an in-use premise that considers the same factors used to estimate the fair value of its real estate and other fixed assets under an in-use premise.

Finance Receivables:

Originated as held for sale AIG determines the fair value of finance receivables originated as held for sale by reference to available market indicators such as current investor yield requirements, outstanding forward sale commitments, or negotiations with prospective purchasers, if any.

Originated as held for investment AIG determines the fair value of finance receivables originated as held for investment based on negotiations with prospective purchasers, if any, or by using projected cash flows discounted at the weighted average interest rates offered in the marketplace for similar finance receivables. Cash flows are projected based on contractual payment terms, adjusted for delinquencies and estimates of prepayments and credit-related losses.

Businesses Held for Sale: When AIG determines that a business qualifies as held for sale and AIG's carrying amount is greater than the expected sale price less cost to sell, AIG records an impairment loss for the difference.

The following table presents assets (excluding discontinued operations) measured at fair value on a non-recurring basis on which impairment charges were recorded, and the related impairment charges:

	Assets at Fair Value				Impairment Charges			
	Non-Recurring Basis				Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	Level 1	Level 2	Level 3	Total	2010	2009	2010	2009
At September 30, 2010								
Goodwill	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	$ 697	**$ -**	$ 705
Investment real estate	**-**	**-**	**2,610**	**2,610**	**21**	522	**551**	1,021
Other investments	**-**	**4**	**3,210**	**3,214**	**29**	355	**106**	713

Aircraft	**-**	**-**	**2,715**	**2,715**	**465**	-	**872**	16
Other assets	**-**	**-**	**-**	**-**	**-**	5	**5**	86
Total	**$ -**	**$ 4**	**$ 8,535**	**$ 8,539**	**$ 515**	$ 1,579	**$ 1,534**	$ 2,541
At December 31, 2009								
Investment real estate	$ -	$ -	$ 3,148	$ 3,148				
Other investments	99	-	1,005	1,104				
Aircraft	-	-	62	62				
Other assets	-	85	54	139				
Total	$ 99	$ 85	$ 4,269	$ 4,453				

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Impairment charges shown above for the nine months ended September 30, 2010 exclude a $3.3 billion goodwill impairment charge associated with the then-pending sale of ALICO and for the three and nine months ended September 30, 2010 excludes a $1.3 billion goodwill impairment charge associated with the pending sale of AIG Star and AIG Edison, all of which are reported in discontinued operations.

During the three- and nine-month periods ended September 30, 2009, AIG recognized goodwill impairment charges primarily in the Institutional Asset Management business. These impairment charges related to a significant decline in certain consolidated warehoused investments as well as the consideration of recent transaction activity. AIG also recognized impairment charges related to certain investment real estate, proprietary real estate, private equity investments and other long-lived assets.

The fair value disclosed in the table above is unadjusted for transaction costs. The amounts recorded on the Consolidated Balance Sheet are net of transaction costs.

Fair Value Option

AIG may choose to measure at fair value financial instruments and certain other assets and liabilities that are not required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in earnings.

The following table presents the gains or losses recorded during the three- and nine-month periods ended September 30, 2010 and 2009 related to the eligible instruments for which AIG elected the fair value option:

	Gain (Loss) Three Months Ended September 30,		Gain (Loss) Nine Months Ended September 30,	
(in millions)	**2010**	2009	**2010**	2009
Assets:				
Mortgage and other loans receivable	**$ 28**	$ 22	**$ 65**	$ (7)
Trading securities	**1,621**	2,282	**2,244**	2,116
Trading Maiden Lane Interests	**457**	1,414	**1,846**	126
Securities purchased under agreements to resell	**18**	2	**14**	(7)
Other invested assets	**3**	(7)	**(42)**	(31)
Short-term investments	**-**	1	**1**	1
Other assets	**1**	-	**1**	-
Liabilities:				
Policyholder contract deposits[(a)]	**(163)**	(168)	**(130)**	(779)
Securities sold under agreements to repurchase	**(130)**	(80)	**37**	(59)
Securities and spot commodities sold but not yet purchased	**-**	(33)	**(21)**	(115)
Debt	**(845)**	(954)	**(2,022)**	2,101
Other liabilities	**(1)**	(62)	**1**	(218)
Total gain[(b)]	**$ 989**	$ 2,417	**$ 1,994**	$ 3,128

(a) *AIG elected to apply the fair value option to a certain investment-linked life insurance product sold principally in Asia, classified within policyholder contract deposits in the Consolidated Balance Sheet. AIG elected the fair value option for these liabilities to more closely align its accounting with the economics of its transactions. The election more effectively aligns changes in the fair value of assets with a commensurate change in the fair value of policyholders' liabilities.*

(b)

Excludes businesses held for sale in the Consolidated Balance Sheet. Also excluded from the table above were gains of $2.1 billion and $67 million for the three-month periods ended September 30, 2010 and 2009, respectively, and gains of $2.8 billion and $1.2 billion for the nine-month periods ended September 30, 2010 and 2009, respectively, that were primarily due to changes in the fair value of derivatives, trading securities and certain other invested assets for which the fair value option was not elected. Included in these amounts were unrealized market valuation gains of $152 million and $959 million for the three-month periods ended September 30, 2010 and 2009, respectively, and unrealized market valuation gains of $432 million and $1.1 billion for the nine-month periods ended September 30, 2010 and 2009, respectively, related to Capital Markets' super senior credit default swap portfolio.

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Interest income and expense and dividend income on assets and liabilities elected under the fair value option are recognized and classified in the Consolidated Statement of Income (Loss) depending on the nature of the instrument and related market conventions. For Direct Investment business-related activity, interest, dividend income, and interest expense are included in Other income. Otherwise, interest and dividend income are included in Net investment income in the Consolidated Statement of Income (Loss). Gains and losses on AIG's Maiden Lane interests are recorded in Net investment income. See Note 1(a) to the Consolidated Financial Statements of AIG's 2009 Financial Statements for additional information about AIG's policies for recognition, measurement, and disclosure of interest and dividend income and interest expense.

During the three- and nine-month periods ended September 30, 2010, AIG recognized a loss of $226 million and of $452 million, respectively, and during the three- and nine-month periods ended September 30, 2009, AIG recognized a loss of $430 million and a gain of $194 million, respectively, attributable to the observable effect of changes in credit spreads on AIG's own liabilities for which the fair value option was elected. AIG calculates the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, AIG's observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as collateral posted.

The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term borrowings, for which the fair value option was elected:

	At September 30, 2010			At December 31, 2009		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 178**	**$ 263**	**$ (85)**	$ 119	$ 253	$ (134)
Liabilities:						
Long-term debt	**$ 11,817**	**$ 9,150**	**$ 2,667**	$ 11,308	$ 10,111	$ 1,197

At September 30, 2010 and December 31, 2009, there were no significant mortgage or other loans receivable for which the fair value option was elected that were 90 days or more past due and in non-accrual status.

Fair Value Information about Financial Instruments Not Measured at Fair Value

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts and lease contracts) is discussed below:

Mortgage and other loans receivable: Fair values of loans on real estate and collateral loans were estimated for disclosure purposes using discounted cash flow calculations based upon discount rates that AIG believes market participants would use in determining the price they would pay for such assets. For certain loans, AIG's current incremental lending rates for similar type loans is used as the discount rate, as it is believed that this rate approximates the rates market participants would use. The fair values of policy loans were not estimated as AIG believes it would have to expend excessive costs for the benefits derived.

Finance receivables: Fair values of net finance receivables, less allowance for finance receivable losses, were estimated for disclosure purposes using projected cash flows, computed by category of finance receivable, discounted at the weighted average interest rates offered for similar finance receivables at the balance sheet date. Cash flows were projected based on contractual payment terms adjusted for delinquencies and estimates of losses. The fair value estimates do not reflect the underlying customer relationships or the related distribution systems.

Cash, short-term investments, trade receivables, trade payables, securities purchased (sold) under agreements to resell (repurchase), and commercial paper and other short-term debt: The carrying values of these assets and

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liabilities approximate fair values because of the relatively short period of time between origination and expected realization.

Policyholder contract deposits associated with investment-type contracts: Fair values for policyholder contract deposits associated with investment-type contracts not accounted for at fair value were estimated for disclosure purposes using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. Where no similar contracts are being offered, the discount rate is the appropriate tenor swap rates (if available) or current risk-free interest rates consistent with the currency in which the cash flows are denominated.

Trust deposits and deposits due to banks and other depositors: The fair values of certificates of deposit which mature in more than one year are estimated for disclosure purposes using discounted cash flow calculations based upon interest rates currently offered for deposits with similar maturities. For demand deposits and certificates of deposit which mature in less than one year, carrying values approximate fair value.

Long-term debt: Fair values of these obligations were determined for disclosure purposes by reference to quoted market prices, where available and appropriate, or discounted cash flow calculations based upon AIG's current market-observable implicit-credit-spread rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following table presents the carrying value and estimated fair value of AIG's financial instruments:

	September 30, 2010		**December 31, 2009**	
(in millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Assets:				
Fixed maturities	**$ 325,047**	**$ 325,047**	$ 396,794	$ 396,794
Equity securities	**16,752**	**16,752**	17,840	17,840
Mortgage and other loans receivable	**22,943**	**23,660**	27,461	25,957
Finance receivables, net of allowance	**1,262**	**1,216**	20,327	18,974
Other invested assets*	**34,601**	**34,290**	43,737	42,474
Securities purchased under agreements to resell	**905**	**905**	2,154	2,154
Short-term investments	**34,462**	**34,462**	47,263	47,263
Cash	**1,668**	**1,668**	4,400	4,400
Unrealized gain on swaps, options and forward transactions	**7,639**	**7,639**	9,130	9,130
Liabilities:				
Policyholder contract deposits associated with investment-type contracts	**110,935**	**124,405**	168,846	175,612
Securities sold under agreements to repurchase	**3,901**	**3,901**	3,505	3,505
Securities and spot commodities sold but not yet purchased	**163**	**163**	1,030	1,030
Unrealized loss on swaps, options and forward transactions	**6,455**	**6,455**	5,403	5,403
Trust deposits and deposits due to banks and other depositors	**936**	**936**	1,641	1,641
Federal Reserve Bank of New York Commercial Paper Funding Facility	**-**	**-**	4,739	4,739
Federal Reserve Bank of New York credit facility	**20,470**	**20,598**	23,435	23,390
Other long-term debt	**93,419**	**91,165**	113,298	94,458

*

Excludes aircraft asset investments held by non-Financial Services subsidiaries.

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6. Investments

Securities Available for Sale

The following table presents the amortized cost or cost and fair value of AIG's available for sale securities:

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI[(a)]
September 30, 2010					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 7,323	$ 316	$ (1)	$ 7,638	$ -
Obligations of states, municipalities and political subdivisions	46,136	3,320	(100)	49,356	(30)
Non-U.S. governments	39,219	3,816	(65)	42,970	-
Corporate debt	138,276	14,753	(997)	152,032	95
Mortgage-backed, asset-backed and collateralized:					
RMBS	31,916	1,183	(2,073)	31,026	(850)
CMBS	7,905	263	(1,562)	6,606	(359)
CDO/ABS	7,029	409	(868)	6,570	(33)
Total mortgage-backed, asset-backed and collateralized	46,850	1,855	(4,503)	44,202	(1,242)
Total bonds available for sale[(b)]	277,804	24,060	(5,666)	296,198	(1,177)
Equity securities available for sale:					
Common stock	5,359	3,792	(150)	9,001	-
Preferred stock	475	123	(3)	595	-
Mutual funds	1,555	176	(61)	1,670	-
Total equity securities available for sale	7,389	4,091	(214)	11,266	-
Total[(c)]	$ 285,193	$ 28,151	$ (5,880)	$ 307,464	$ (1,177)

December 31, 2009					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 5,098	$ 174	$ (49)	$ 5,223	$ -
Obligations of states, municipalities and political subdivisions	52,324	2,163	(385)	54,102	-
Non-U.S. governments	63,080	3,153	(649)	65,584	(1)
Corporate debt	185,188	10,826	(3,876)	192,138	119
Mortgage-backed, asset-backed and collateralized:					
RMBS	32,173	991	(4,840)	28,324	(2,121)
CMBS	18,717	195	(5,623)	13,289	(739)
CDO/ABS	7,911	284	(1,304)	6,891	(63)
Total mortgage-backed, asset-backed and collateralized	58,801	1,470	(11,767)	48,504	(2,923)
Total bonds available for sale[(b)]	364,491	17,786	(16,726)	365,551	(2,805)
Equity securities available for sale:					
Common stock	4,460	2,913	(75)	7,298	-
Preferred stock	740	94	(20)	814	-
Mutual funds	1,264	182	(36)	1,410	-
Total equity securities available for sale	6,464	3,189	(131)	9,522	-
Total[(c)]	$ 370,955	$ 20,975	$ (16,857)	$ 375,073	$ (2,805)

(a) *Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive income, which, starting on April 1, 2009, were not included in earnings. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.*

(b) *At September 30, 2010 and December 31, 2009, bonds available for sale held by AIG that were below investment grade or not rated totaled $22.7 billion and $24.5 billion, respectively.*

(c) *Excludes $157.0 billion and $36.1 billion of available for sale investments at fair value from businesses held for sale at September 30, 2010 and December 31, 2009, respectively. See Note 3 herein.*

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Unrealized losses on Securities Available for Sale

The following table summarizes the fair value and gross unrealized losses on AIG's available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

	12 Months or Less		More than 12 Months		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2010*						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 262**	**$ 1**	**$ 62**	**$ -**	**$ 324**	**$ 1**
Obligations of states, municipalities and political subdivisions	**440**	**29**	**643**	**71**	**1,083**	**100**
Non-U.S. governments	**1,045**	**26**	**1,023**	**39**	**2,068**	**65**
Corporate debt	**5,516**	**293**	**9,600**	**704**	**15,116**	**997**
RMBS	**3,615**	**79**	**8,329**	**1,994**	**11,944**	**2,073**
CMBS	**268**	**25**	**3,151**	**1,537**	**3,419**	**1,562**
CDO/ABS	**474**	**66**	**2,685**	**802**	**3,159**	**868**
Total bonds available for sale	**11,620**	**519**	**25,493**	**5,147**	**37,113**	**5,666**
Equity securities available for sale:						
Common stock	**1,226**	**150**	**-**	**-**	**1,226**	**150**
Preferred stock	**6**	**3**	**-**	**-**	**6**	**3**
Mutual funds	**688**	**61**	**-**	**-**	**688**	**61**
Total equity securities available for sale	**1,920**	**214**	**-**	**-**	**1,920**	**214**
Total	**$ 13,540**	**$ 733**	**$ 25,493**	**$ 5,147**	**$ 39,033**	**$ 5,880**
December 31, 2009*						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 1,414	$ 35	$ 105	$ 14	$ 1,519	$ 49
Obligations of states, municipalities and political subdivisions	5,405	132	3,349	253	8,754	385
Non-U.S. governments	7,842	239	3,286	410	11,128	649
Corporate debt	24,696	1,386	22,139	2,490	46,835	3,876
RMBS	7,135	3,051	6,352	1,789	13,487	4,840
CMBS	5,013	3,927	4,528	1,696	9,541	5,623
CDO/ABS	2,809	1,119	1,693	185	4,502	1,304
Total bonds available for sale	54,314	9,889	41,452	6,837	95,766	16,726
Equity securities available for sale:						
Common stock	933	75	-	-	933	75
Preferred stock	172	20	-	-	172	20
Mutual funds	333	36	-	-	333	36

Total equity securities available for sale		1,438		131		-		-		1,438		131
Total	$	55,752	$	10,020	$	41,452	$	6,837	$	97,204	$	16,857

*

Excludes fixed maturity and equity securities of businesses held for sale. See Note 3 herein.

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At September 30, 2010, AIG held 4,603 and 768 of individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 3,216 individual securities were in a continuous unrealized loss position for longer than twelve months.

AIG did not recognize in earnings the unrealized losses on these fixed maturity securities at September 30, 2010, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, management performed fundamental credit analysis on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

September 30, 2010	**Total Fixed Maturity Available for Sale Securities**		**Fixed Maturity Securities in a Loss Position**	
(in millions)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 10,667	$ 10,782	$ 1,421	$ 1,399
Due after one year through five years	58,462	61,988	6,484	6,227
Due after five years through ten years	69,432	76,096	4,337	4,100
Due after ten years	92,393	103,130	7,512	6,865
Mortgage-backed, asset-backed and collateralized	46,850	44,202	23,025	18,522
Total	$ 277,804	$ 296,198	$ 42,779	$ 37,113

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The following table presents the gross realized gains and gross realized losses from sales or redemptions of AIG's available for sale securities:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2010		**2009**		**2010**		**2009**	
(in millions)	**Gross Realized Gains**	**Gross Realized Losses**	**Gross Realized Gains**	**Gross Realized Losses**	**Gross Realized Gains**	**Gross Realized Losses**	**Gross Realized Gains**	**Gross Realized Losses**
Fixed maturities	**$ 879**	**$ 46**	$ 1,482	$ 1,228	**$ 1,449**	**$ 143**	$ 2,457	$ 1,812
Equity securities	**184**	**43**	200	40	**477**	**73**	380	199
Total	**$ 1,063**	**$ 89**	$ 1,682	$ 1,268	**$ 1,926**	**$ 216**	$ 2,837	$ 2,011

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For the three- and nine-month periods ended September 30, 2010, the aggregate fair value of available for sale securities sold at a loss was $1.0 billion and $3.4 billion, respectively, which resulted in net realized capital losses of $84 million and $191 million, respectively. The average period of time that securities sold at a loss during the nine-month period ended September 30, 2010 were trading continuously at a price below cost or amortized cost was approximately five months.

Evaluating Investments for Other-Than-Temporary Impairments

On April 1, 2009, AIG adopted a new accounting standard on a prospective basis addressing the evaluation of fixed maturity securities for other-than-temporary impairments. These requirements significantly altered AIG's policies and procedures for determining impairment charges recognized through earnings. The standard requires a company to recognize the credit component (a credit impairment) of an other-than-temporary impairment of a fixed maturity security in earnings and the non-credit component in Accumulated other comprehensive income when the company does not intend to sell the security or it is more likely than not that the company will not be required to sell the security prior to recovery. The standard also changes the threshold for determining when an other-than-temporary impairment has occurred on a fixed maturity security with respect to intent and ability to hold the security until recovery and requires additional disclosures. A credit impairment, which is recognized in earnings when it occurs, is the difference between the amortized cost of the fixed maturity security and the estimated present value of cash flows expected to be collected (recovery value), as determined by management. The difference between fair value and amortized cost that is not related to a credit impairment is recognized as a separate component of Accumulated other comprehensive income (loss). AIG refers to both credit impairments and impairments recognized as a result of intent to sell as "impairment charges." The impairment model for equity securities was not affected by the standard.

Impairment Policy Effective April 1, 2009 and Thereafter

Fixed Maturity Securities

If AIG intends to sell a fixed maturity security or it is more likely than not that AIG will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to earnings.

For all other fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recovery value with a corresponding charge to earnings. Changes in fair value compared to recovery value, if any, are charged to unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken (a component of Accumulated other comprehensive income (loss)).

When assessing AIG's intent to sell a fixed maturity security, or whether it is more likely than not that AIG will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition AIG's investment portfolio, sales of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing.

AIG considers severe price declines and the duration of such price declines in its assessment of potential credit impairments.

In periods subsequent to the recognition of an other-than-temporary impairment charge that is not foreign exchange related for available for sale fixed maturity securities, AIG generally prospectively accretes into earnings over the remaining expected holding period of the security the difference between the new amortized cost and the expected undiscounted recovery value.

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Credit Impairments

The following table presents a rollforward of the credit impairments recognized in earnings for available for sale fixed maturity securities held by AIG[(a)]:

(in millions)	September 30, 2010 Three Months Ended	Nine Months Ended
Balance, beginning of period	$ 8,007	$ 7,803
Increases due to:		
Credit impairments on new securities subject to impairment losses	142	432
Additional credit impairments on previously impaired securities	278	1,088
Reductions due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	(227)	(791)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	(493)	(498)
Accretion on securities previously impaired due to credit[(b)]	(83)	(269)
Hybrid securities with embedded credit derivatives reclassified to Bonds trading securities	(748)	(748)
Foreign exchange translation adjustments	6	(11)
Impairments on securities reclassified to Assets held for sale	(186)	(309)
Other	(1)	(2)
Balance, end of period	$ 6,695	$ 6,695

(a) *Includes structured, corporate, municipal and sovereign fixed maturity securities.*

(b) *Represents accretion recognized due to changes in cash flows expected to be collected over the remaining expected term of the credit impaired securities as well as the accretion due to the passage of time.*

In assessing whether a credit impairment has occurred for a structured fixed maturity security, AIG performs evaluations of expected future cash flows. Certain critical assumptions are made with respect to the performance of the securities.

When estimating future cash flows for a structured fixed maturity security (e.g. RMBS, CMBS, CDO, ABS) management considers historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and priority of payment structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by asset class:

- Current delinquency rates;
- Expected default rates and timing of such defaults;
- Loss severity and timing of any such recovery;

Expected prepayment speeds; and

Ratings of securities underlying structured products.

For corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers the fair value as the recovery value when available information does not indicate that another value is more relevant or reliable. When management identifies information that supports a recovery value other than the fair value, the determination of a recovery value considers scenarios specific to the issuer and the security, and may be based upon estimates of outcomes of corporate restructurings, political and macro economic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

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Equity Securities

The impairment model for equity securities and other cost and equity method investments was not affected by the adoption of the new accounting standard related to other-than-temporary impairments in the second quarter of 2009. AIG continues to evaluate its available for sale equity securities, equity method and cost method investments for impairment by considering such securities as candidates for other-than-temporary impairment if they meet any of the following criteria:

- The security has traded at a significant (25 percent or more) discount to cost for an extended period of time (nine consecutive months or longer);

- A discrete credit event has occurred resulting in (i) the issuer defaulting on a material outstanding obligation; (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or

- AIG has concluded that it may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

The determination that an equity security is other-than-temporarily impaired requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. The above criteria also consider circumstances of a rapid and severe market valuation decline in which AIG could not reasonably assert that the impairment period would be temporary (severity losses).

Other Invested Assets

AIG's investments in funds and investment partnerships are evaluated for impairment consistent with the evaluation of equity securities for impairments as discussed above. Such evaluation considers market conditions, events and volatility that may impact the recoverability of the underlying investments within these funds and investment partnerships and is based on the nature of the underlying investments and specific inherent risks. Such risks may evolve based on the nature of the underlying investments.

AIG's investments in life settlement contracts are monitored for impairment based on the underlying life insurance policies, with cash flows reported monthly. An investment in a life settlement contract is considered impaired if the undiscounted cash flows resulting from the expected proceeds from the insurance policy are less than the carrying amount of the investment plus anticipated continuing costs. If an impairment loss is recognized, the investment is written down to fair value.

AIG's aircraft asset investments and investments in real estate are periodically evaluated for recoverability whenever changes in circumstances indicate the carrying amount of an asset may be impaired. When impairment indicators are present, AIG compares expected investment cash flows to carrying value. When the expected cash flows are less than the carrying value, the investments are written down to fair value with a corresponding charge to earnings.

Fixed Maturity Securities Impairment Policy Prior to April 1, 2009

In all periods prior to April 1, 2009, AIG assessed its ability to hold any fixed maturity available for sale security in an unrealized loss position to its recovery at each balance sheet date. The decision to sell any such fixed maturity security classified as available for sale reflected the judgment of AIG's management that the security sold was unlikely to provide, on a relative value basis, as attractive a return in the future as alternative securities entailing comparable risks. With respect to distressed securities, the sale decision reflected management's judgment that the risk-adjusted ultimate recovery was less than the value achievable on sale.

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In those periods, AIG evaluated its fixed maturity securities for other-than-temporary impairments with respect to valuation as well as credit.

After a fixed maturity security had been identified as other-than-temporarily impaired, the amount of such impairment was determined as the difference between fair value and amortized cost and the entire amount was recorded as a charge to earnings.

7. Variable Interest Entities

The accounting standards related to the consolidation of variable interest entities (VIEs) provide guidance for determining when to consolidate certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity that is at risk to allow the entity to finance its activities without additional subordinated financial support. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but rather is based on other criteria.

While AIG enters into various arrangements with VIEs in the normal course of business, AIG's involvement with VIEs is primarily as a passive investor in debt securities (rated and unrated) and equity interests issued by VIEs via its insurance companies. In all instances, AIG determines whether it is the primary beneficiary or a variable interest holder based on a qualitative assessment of the VIE. This includes a review of the VIE's capital structure, contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued, and AIG's involvements with the entity. AIG also evaluates the design of the VIE and the related risks the entity was designed to expose the variable interest holders to in evaluating consolidation.

For VIEs with attributes consistent with that of an investment company or a money market fund, the primary beneficiary is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

For all other variable interest entities, the primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of AIG's decision-making ability and its ability to influence activities that significantly affect the economic performance of the VIE.

Exposure to Loss

AIG's total off-balance sheet exposure associated with VIEs, primarily consisting of financial guarantees and commitments to real estate and investment funds, was $1.5 billion and $2.2 billion at September 30, 2010 and December 31, 2009, respectively.

The following table presents AIG's total assets, total liabilities and off-balance sheet exposure associated with its variable interests in consolidated VIEs:

	VIE Assets*		VIE Liabilities		Off-Balance Sheet Exposure	
(in billions)	**September 30, 2010**	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**
Real estate and investment funds	**$ 9.0**	$ 4.6	**$ 2.8**	$ 2.9	**$ 0.3**	$ 0.6
Commercial paper conduit	**0.6**	3.6	**0.2**	3.0	**-**	-
CDOs	**-**	0.2	**-**	0.1	**-**	-
Affordable housing partnerships	**3.3**	2.5	**0.3**	-	**-**	-

Other		**4.6**		3.4		**1.8**		2.1		**-**		-
VIEs of businesses held for sale		**10.6**		-		**2.5**		-		**0.1**		-
Total	**$**	**28.1**	$	14.3	**$**	**7.6**	$	8.1	**$**	**0.4**	$	0.6

*

Each of the VIE's assets can be used only to settle specific obligations of that VIE.

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AIG calculates its maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where AIG has also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by AIG generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except in limited circumstances when AIG has provided a guarantee to the VIE's interest holders.

The following table presents total assets of unconsolidated VIEs in which AIG holds a variable interest, as well as AIG's maximum exposure to loss associated with these VIEs:

		Maximum Exposure to Loss			
		On-Balance Sheet		Off-Balance Sheet	
(in billions)	Total VIE Assets	Purchased and Retained Interests	Other	Commitments and Guarantees	Total
September 30, 2010					
Real estate and investment funds	**$ 21.9**	**$ 2.9**	**$ -**	**$ 0.5**	**$ 3.4**
Affordable housing partnerships	**0.6**	**-**	**0.6**	**-**	**0.6**
Maiden Lane Interests	**40.3**	**7.1**	**-**	**-**	**7.1**
Other	**2.0**	**-**	**0.1**	**0.5**	**0.6**
VIEs of businesses held for sale	**9.5**	**2.3**	**0.6**	**0.1**	**3.0**
Total	**$ 74.3**	**$ 12.3**	**$ 1.3**	**$ 1.1**	**$ 14.7**
December 31, 2009					
Real estate and investment funds	$ 23.3	$ 3.2	$ 0.4	$ 1.6	$ 5.2
Affordable housing partnerships	1.3	-	1.3	-	1.3
Maiden Lane Interests	38.7	5.3	-	-	5.3
Other	7.6	1.2	0.5	-	1.7
Total	$ 70.9	$ 9.7	$ 2.2	$ 1.6	$ 13.5

Balance Sheet Classification

AIG's interest in the assets and liabilities of consolidated and unconsolidated VIEs were classified on the Consolidated Balance Sheet as follows:

	Consolidated VIEs		Unconsolidated VIEs	
(in billions)	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Assets:				
Available for sale securities	**$ 0.3**	$ 0.9	**$ -**	$ 0.3
Trading securities	**3.2**	3.9	**7.4**	6.4
Other invested assets	**9.7**	3.6	**3.6**	3.6
Other asset accounts	**4.3**	5.9	**0.1**	1.6
Assets held for sale	**10.6**	-	**2.7**	-

Total	**$**	**28.1**	$	14.3	**$**	**13.8**	$	11.9
Liabilities:								
FRBNY commercial paper funding facility	**$**	**-**	$	2.7	**$**	**-**	$	-
Other long-term debt		**4.0**		4.6		**-**		-
Other liability accounts		**1.1**		0.8		**0.2**		-
Liabilities held for sale		**2.5**		-		**-**		-
Total	**$**	**7.6**	$	8.1	**$**	**0.2**	$	-

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See Note 1 herein for effect of consolidation under the amended accounting standard for the consolidation of variable interest entities.

RMBS, CMBS, Other ABS and CDOs

AIG, through its insurance company subsidiaries, is a passive investor in RMBS, CMBS, CDOs and other ABS primarily issued by domestic special-purpose entities. AIG did not sponsor or transfer assets to, or act as the servicer to these asset-backed structures, and was not involved in the design of these entities.

AIG, through its Direct Investment subsidiaries, also invests in CDOs and similar structures, which can be cash-based or synthetic and are managed by third parties. The role of Direct Investment subsidiaries is generally limited to that of a passive investor. They do not manage such structures.

AIG's maximum exposure in these types of structures is limited to its investment in securities issued by these entities. Based on the nature of AIG's investments and its passive involvement in these types of structures, AIG has determined that it is not the primary beneficiary of these entities. The fair values of AIG's investments in these structures are reported in Notes 5 and 6 herein.

See Notes 5, 6 and 10 of Notes to Consolidated Financial Statements of AIG's 2009 Financial Statements for additional information on VIEs and asset-backed securities.

8. Derivatives and Hedge Accounting

AIG uses derivatives and other financial instruments as part of its financial risk management programs and as part of its investment operations. AIGFP had also transacted in derivatives as a dealer and had acted as an intermediary between the relevant AIG subsidiary and the counterparty. AIG is replacing AIGFP with AIG Markets for purposes of acting as an intermediary between the AIG subsidiary and the third-party counterparty as part of its wind-down of AIGFP.

Derivatives are financial arrangements among two or more parties with returns linked to or "derived" from some underlying equity, debt, commodity or other asset, liability, or foreign exchange rate or other index or the occurrence of a specified payment event. Derivative payments may be based on interest rates, exchange rates, prices of certain securities, commodities, or financial or commodity indices or other variables. Derivatives, with the exception of bifurcated embedded derivatives, are reflected on the Consolidated Balance Sheet in Unrealized gain on swaps, options and forward transactions, at fair value and Unrealized loss on swaps, options and forward contracts, at fair value. Bifurcated embedded derivatives are recorded with the host contract on the Consolidated Balance Sheet.

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The following table presents the notional amounts and fair values of AIG's derivative instruments:

	September 30, 2010				December 31, 2009			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount[(a)]	Fair Value[(b)]	Notional Amount[(a)]	Fair Value[(b)]	Notional Amount[(a)]	Fair Value[(b)]	Notional Amount[(a)]	Fair Value[(b)]
Derivatives designated as hedging instruments:								
Interest rate contracts[(c)]	**$ 3,071**	**$ 493**	**$ 656**	**$ 65**	$ 10,612	$ 2,129	$ 3,884	$ 375
Derivatives not designated as hedging instruments:								
Interest rate contracts[(c)]	**200,461**	**25,535**	**187,035**	**19,676**	345,614	27,451	300,847	23,718
Foreign exchange contracts	**5,273**	**235**	**6,883**	**447**	16,662	720	9,719	939
Equity contracts	**5,438**	**505**	**2,251**	**450**	8,175	1,184	7,713	1,064
Commodity contracts	**189**	**143**	**223**	**126**	759	883	381	373
Credit contracts	**2,148**	**425**	**93,975**	**4,733**	3,706	1,210	190,275	5,815
Other contracts	**28,127**	**798**	**15,820**	**1,819**	34,605	928	23,310	1,101
Total derivatives not designated as hedging instruments	**241,636**	**27,641**	**306,187**	**27,251**	409,521	32,376	532,245	33,010
Total derivatives	**$ 244,707**	**$ 28,134**	**$ 306,843**	**$ 27,316**	$ 420,133	$ 34,505	$ 536,129	$ 33,385

(a) *Notional amount represents a standard of measurement of the volume of derivatives business of AIG. Notional amount is generally not a quantification of market risk or credit risk and is not recorded on the Consolidated Balance Sheet. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps and certain credit contracts. For credit contracts, notional amounts are net of all underlying subordination.*

(b) *Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.*

(c) *Includes cross currency swaps.*

The following table presents the fair values of derivative assets and liabilities on the Consolidated Balance Sheet:

	September 30, 2010				December 31, 2009			
	Derivative Assets[(a)]		Derivative Liabilities[(b)]		Derivative Assets[(c)]		Derivative Liabilities[(d)]	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Capital Markets derivatives	**$ 218,883**	**$ 23,508**	**$ 273,259**	**$ 22,697**	$ 400,223	$ 31,951	$ 499,821	$ 30,930
All other derivatives	**25,824**	**4,626**	**33,584**	**4,619**	19,910	2,554	36,308	2,455

Total derivatives, gross	**$**	**244,707**	**28,134**	**$**	**306,843**	**27,316**	$	420,133	34,505	$	536,129	33,385
Counterparty netting[(e)]			**(15,448)**			**(15,448)**			(19,054)			(19,054)
Cash collateral[(f)]			**(5,042)**			**(3,942)**			(6,317)			(8,166)
Total derivatives, net			**7,644**			**7,926**			9,134			6,165
Less: Bifurcated embedded derivatives			**5**			**1,471**			4			762
Total derivatives on balance sheet			**$ 7,639**			**$ 6,455**			$ 9,130			$ 5,403

(a) *Included in all other derivatives are bifurcated embedded derivatives which are recorded in Bonds available for sale, at fair value.*

(b) *Included in all other derivatives are bifurcated embedded derivatives which are recorded in Policyholder contract deposits, Other invested assets, Bonds available for sale, at fair value, and Common and preferred stock.*

(c) *Included in all other derivatives are bifurcated embedded derivatives which are recorded in Bonds available for sale, at fair value, and Policyholder contract deposits.*

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(d) *Included in all other derivatives are bifurcated embedded derivatives which are recorded in Policyholder contract deposits and Common and preferred stock.*

(e) *Represents netting of derivative exposures covered by a qualifying master netting agreement.*

(f) *Represents cash collateral posted and received.*

Hedge Accounting

AIG designated certain derivatives entered into by AIGFP and AIG Markets with third parties as either fair value or cash flow hedges of certain debt issued by AIG Parent, ILFC and AGF. The fair value hedges included (i) interest rate swaps that were designated as hedges of the change in the fair value of fixed rate debt attributable to changes in the benchmark interest rate and (ii) foreign currency swaps designated as hedges of the change in fair value of foreign currency denominated debt attributable to changes in foreign exchange rates and in certain cases also the benchmark interest rate. With respect to the cash flow hedges, (i) interest rate swaps were designated as hedges of the changes in cash flows on floating rate debt attributable to changes in the benchmark interest rate, and (ii) foreign currency swaps were designated as hedges of changes in cash flows on foreign currency denominated debt attributable to changes in the benchmark interest rate and foreign exchange rates.

AIG assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Regression analysis is employed to assess the effectiveness of these hedges both on a prospective and retrospective basis. AIG does not utilize the shortcut method to assess hedge effectiveness. For net investment hedges, the matched terms method is utilized to assess hedge effectiveness.

AIG uses debt instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with AIG's non-U.S. dollar functional currency foreign subsidiaries. AIG assesses the hedge effectiveness and measures the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. AIG records the change in the carrying amount of these investments in the foreign currency translation adjustment within Accumulated other comprehensive loss. Simultaneously, the effective portion of the hedge of this exposure is also recorded in foreign currency translation adjustment and the ineffective portion, if any, is recorded in earnings. If (1) the notional amount of the hedging debt instrument matches the designated portion of the net investment and (2) the hedging debt instrument is denominated in the same currency as the functional currency of the hedged net investment, no ineffectiveness is recorded in earnings. For the three- and nine-month periods ended September 30, 2010, AIG recognized gains (losses) of $(37) million and $22 million, respectively, and for the three- and nine-month periods ended September 30, 2009, AIG recognized gains (losses) of $24 million and $(73) million, respectively, included in Foreign currency translation adjustment in Accumulated other comprehensive loss related to the net investment hedge relationships.

The following table presents the effect of AIG's derivative instruments in fair value hedging relationships on the Consolidated Statement of Income (Loss):

(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest rate contracts[(a)(b)]:				
Gain recognized in earnings on derivatives	**$ 104**	$ 527	**$ 262**	$ 57
Gain (loss) recognized in earnings on hedged items[(c)]	**(50)**	(515)	**(119)**	53
Gain recognized in earnings for ineffective portion and amount excluded from effectiveness testing	**9**	11	**39**	98

(a)

Gains and losses recognized in earnings on derivatives for the effective portion and hedged items are recorded in Other income. Gains and losses recognized in earnings on derivatives for the ineffective portion and amounts excluded from effectiveness testing are recorded in Net realized capital losses and Other income, respectively.

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(b)
Includes $8 million and $12 million, respectively, for the three-month periods ended September 30, 2010 and 2009 and $32 million and $104 million, respectively, for the nine-month periods ended September 30, 2010 and 2009 related to the ineffective portion. Includes $0 million and $(1) million, respectively, for the three-month periods ended September 30, 2010 and 2009 and $7 million and $(6) million, respectively, for the nine-month periods ended September 30, 2010 and 2009 related to amounts excluded from effectiveness testing

(c)
The three- and nine-month periods ended September 30, 2010 includes $45 million and $104 million, respectively, representing the amortization of debt basis adjustment following the discontinuation of hedge accounting on certain positions.

The following table presents the effect of AIG's derivative instruments in cash flow hedging relationships on the Consolidated Statement of Income (Loss):

(in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Interest rate contracts[(a)]:				
Gain (loss) recognized in OCI on derivatives	**$ (66)**	$ 12	**$ (25)**	$ 84
Gain (loss) reclassified from Accumulated OCI into earnings[(b)]	**(67)**	19	**(65)**	9
Gain (loss) recognized in earnings on derivatives for ineffective portion	**-**	9	**(6)**	10

(a)
Gains and losses reclassified from Accumulated other comprehensive income are recorded in Other income. Gains or losses recognized in earnings on derivatives for the ineffective portion are recorded in Net realized capital losses.

(b)
The effective portion of the change in fair value of a derivative qualifying as a cash flow hedge is recorded in Accumulated other comprehensive income until earnings are affected by the variability of cash flows in the hedged item. At September 30, 2010, $43 million of the deferred net loss in Accumulated other comprehensive income is expected to be recognized in earnings during the next 12 months.

Derivatives Not Designated as Hedging Instruments

The following table presents the effect of AIG's derivative instruments not designated as hedging instruments on the Consolidated Statement of Income (Loss):

	Gains (Losses) Recognized in Earnings			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2010	2009	2010	2009
By Derivative Type:				
Interest rate contracts[(a)]	**$ 413**	$ (751)	**$ 156**	$ 458
Foreign exchange contracts	**(238)**	224	**(125)**	(580)
Equity contracts	**(170)**	(263)	**161**	(37)
Commodity contracts	**9**	43	**(2)**	115
Credit contracts	**213**	1,346	**662**	1,610
Other contracts[(b)]	**164**	3	**(430)**	566

Total	**$ 391**	$ 602	**$ 422**	$ 2,132
By Classification:				
Premiums and other considerations	**$ 22**	$ 13	**$ 62**	$ 48
Net investment income	**12**	5	**21**	16
Net realized capital gains (losses)	**723**	(670)	**(674)**	876
Unrealized market valuation gains on Capital Markets super senior credit default swap portfolio	**152**	959	**432**	1,143
Other income	**(518)**	295	**581**	49
Total	**$ 391**	$ 602	**$ 422**	$ 2,132

(a)
Includes cross currency swaps.

(b)
Includes embedded derivative gains of $61 million and $67 million, respectively, for the three months ended September 30, 2010 and September 30, 2009; and losses of $618 million and gains of $1.3 billion, respectively, for the nine months ended September 30, 2010 and September 30, 2009.

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Capital Markets Derivatives

AIGFP enters into derivative transactions to mitigate risk in its exposures (interest rates, currencies, commodities, credit and equities) arising from its transactions. In most cases, AIGFP did not hedge its exposures related to the credit default swaps it had written. As a dealer, AIGFP structured and entered into derivative transactions to meet the needs of counterparties who may be seeking to hedge certain aspects of such counterparties' operations or obtain a desired financial exposure.

Capital Markets' derivative transactions involving interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying notional amounts. AIGFP typically became a principal in the exchange of interest payments between the parties and, therefore, is exposed to counterparty credit risk and may be exposed to loss, if counterparties default. Currency, commodity, and equity swaps are similar to interest rate swaps, but involve the exchange of specific currencies or cash flows based on the underlying commodity, equity securities or indices. Also, they may involve the exchange of notional amounts at the beginning and end of the transaction. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

AIGFP follows a policy of minimizing interest rate, currency, commodity, and equity risks associated with investment securities by entering into offsetting positions, on a security by security basis within its derivatives portfolio, thereby offsetting a significant portion of the unrealized appreciation and depreciation. In addition, to reduce its credit risk, AIGFP has entered into credit derivative transactions with respect to $433 million of securities to economically hedge its credit risk.

The timing and the amount of cash flows relating to Capital Markets' foreign exchange forwards and exchange traded futures and options contracts are determined by each of the respective contractual agreements.

Futures and forward contracts are contracts that obligate the holder to sell or purchase foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. As a writer of options, AIGFP generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index by entering into offsetting transactions with third-party market participants. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts.

Capital Markets Super Senior Credit Default Swaps

AIGFP entered into credit default swap transactions with the intention of earning revenue on credit exposure. In the majority of Capital Markets' credit default swap transactions, AIGFP sold credit protection on a designated portfolio of loans or debt securities. Generally, AIGFP provides such credit protection on a "second loss" basis, meaning that AIGFP would incur credit losses only after a shortfall of principal and/or interest, or other credit events, in respect of the protected loans and debt securities, exceeds a specified threshold amount or level of "first losses."

Typically, the credit risk associated with a designated portfolio of loans or debt securities has been tranched into different layers of risk, which are then analyzed and rated by the credit rating agencies. At origination, there is usually an equity layer covering the first credit losses in respect of the portfolio up to a specified percentage of the total portfolio, and then successive layers ranging generally from a BBB-rated layer to one or more AAA-rated layers. A significant majority of AIGFP transactions that were rated by rating agencies had risk layers or tranches rated AAA at origination and are immediately junior to the threshold level above which AIGFP's payment obligation would generally arise. In transactions that were not rated, AIGFP applied equivalent risk criteria for setting the threshold level for its payment obligations. Therefore, the risk layer assumed by AIGFP

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with respect to the designated portfolio of loans or debt securities in these transactions is often called the "super senior" risk layer, defined as a layer of credit risk senior to one or more risk layers rated AAA by the credit rating agencies, or if the transaction is not rated, structured to the equivalent thereto.

The following table presents the net notional amount, fair value of derivative (asset) liability and unrealized market valuation gain (loss) of the AIGFP super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions, by asset class:

	Net Notional Amount		Fair Value of Derivative (Asset) Liability at		Unrealized Market Valuation Gain (Loss)			
					Three Months Ended		Nine Months Ended	
(in millions)	September 30, 2010[(a)]	December 31, 2009[(a)]	September 30, 2010[(b)(c)]	December 31, 2009[(b)(c)]	September 30, 2010[(c)]	2009[(c)]	September 30, 2010[(c)]	2009[(c)]
Regulatory Capital:								
Corporate loans	$ **28,592**	$ 55,010	$ **-**	$ -	$ **-**	$ -	$ **-**	$ -
Prime residential mortgages	**35,455**	93,276	**(208)**	(137)	**45**	-	**71**	-
Other	**1,403**	1,760	**22**	21	**6**	16	**(1)**	25
Total	**65,450**	150,046	**(186)**	(116)	**51**	16	**70**	25
Arbitrage:								
Multi-sector CDOs[(d)]	**6,929**	7,926	**3,640**	4,418	**117**	332	**516**	(761)
Corporate debt/CLOs[(e)]	**12,512**	22,076	**308**	309	**8**	566	**(82)**	1,716
Total	**19,441**	30,002	**3,948**	4,727	**125**	898	**434**	955
Mezzanine tranches[(f)]	**2,880**	3,478	**215**	143	**(24)**	45	**(72)**	163
Total	$ **87,771**	$ 183,526	$ **3,977**	$ 4,754	$ **152**	$ 959	$ **432**	$ 1,143

(a) *Net notional amounts presented are net of all structural subordination below the covered tranches.*

(b) *Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral.*

(c) *Includes credit valuation adjustment gains (losses) of ($34) million and ($85) million in the three-month periods ended September 30, 2010 and 2009, respectively, and credit valuation adjustment gains (losses) of ($124) million and $4 million in the nine-month periods ended September 30, 2010 and 2009, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.*

(d)

During the nine-month period ended September 30, 2010, AIGFP terminated a super senior CDS transaction with its counterparty with a net notional amount of $296 million, included in Multi-sector CDOs. This transaction was terminated at approximately its fair value at the time of the termination. As a result, a $202 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized. During the nine-month period ended September 30, 2010, AIGFP also paid $60 million to its counterparty with respect to multi-sector CDOs. Upon payment, a $60 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized. Multi-sector CDOs also includes $5.6 billion and $6.3 billion in net notional amount of credit default swaps written with cash settlement provisions at September 30, 2010 and December 31, 2009, respectively.

(e)

During the nine-month period ended September 30, 2010, AIGFP terminated super senior CDS transactions with its counterparties with a net notional amount of $9.3 billion, included in Corporate debt/CLOs. These transactions were terminated at approximately their fair value at the time of the termination. As a result, an $83 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized. Corporate debt/CLOs also includes $1.5 billion and $1.4 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at September 30, 2010 and December 31, 2009, respectively.

(f)

Net of offsetting purchased CDS of $1.4 billion and $1.5 billion in net notional amount at September 30, 2010 and December 31, 2009, respectively.

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All outstanding CDS transactions for regulatory capital purposes and the majority of the arbitrage portfolio have cash-settled structures in respect of a basket of reference obligations, where AIGFP's payment obligations, other than for posting collateral, may be triggered by payment shortfalls, bankruptcy and certain other events such as write-downs of the value of underlying assets. For the remainder of the CDS transactions in respect of the arbitrage portfolio, AIGFP's payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

The expected weighted average maturity of AIGFP's super senior credit derivative portfolios as of September 30, 2010 was 0.4 years for the regulatory capital corporate loan portfolio, 3.5 years for the regulatory capital prime residential mortgage portfolio, 5.0 years for the regulatory capital other portfolio, 6.4 years for the multi-sector CDO arbitrage portfolio and 4.5 years for the corporate debt/CLO portfolio.

Regulatory Capital Portfolio

The regulatory capital portfolio represents derivatives written for financial institutions in Europe, for the purpose of providing regulatory capital relief rather than for arbitrage purposes. In exchange for a periodic fee, the counterparties receive credit protection with respect to a portfolio of diversified loans they own, thus reducing their minimum capital requirements. These CDS transactions were structured with early termination rights for counterparties allowing them to terminate these transactions at no cost to AIGFP at a certain period of time or upon a regulatory event such as the implementation of Basel II. During the nine-month period ended September 30, 2010, $61.6 billion in net notional amount was terminated or matured at no cost to AIGFP. Through October 29, 2010, AIGFP had also received termination notices for an additional $16.1 billion in net notional amount with effective termination dates in 2010.

The regulatory capital relief CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with a regulatory capital relief transaction only if realized credit losses in respect of the underlying portfolio exceed AIGFP's attachment point.

All of the regulatory capital transactions directly or indirectly reference tranched pools of large numbers of whole loans that were originated by the financial institution (or its affiliates) receiving the credit protection, rather than structured securities containing loans originated by other third parties. In the vast majority of transactions, the loans are intended to be retained by the originating financial institution and in all cases the originating financial institution is the purchaser of the CDS, either directly or through an intermediary.

The super senior tranches of these CDS transactions continue to be supported by high levels of subordination, which, in most instances, have increased since origination. The weighted average subordination supporting the prime residential mortgage and corporate loan referenced portfolios at September 30, 2010 was 13.16 percent and 15.79 percent, respectively. The highest realized losses to date in any single residential mortgage and corporate loan pool were 2.58 percent and 0.52 percent, respectively. The corporate loan transactions are each comprised of several hundred secured and unsecured loans diversified by industry and, in some instances, by country, and have per-issuer concentration limits. Both types of transactions generally allow some substitution and replenishment of loans, subject to defined constraints, as older loans mature or are prepaid. These replenishment rights generally expire within the first few years of the trade, after which the proceeds of any prepaid or maturing loans are applied first to the super senior tranche (sequentially), thereby increasing the relative level of subordination supporting the balance of AIGFP's super senior CDS exposure.

Given the current performance of the underlying portfolios, the level of subordination and AIGFP's own assessment of the credit quality of the underlying portfolio, as well as the risk mitigants inherent in the transaction structures, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief. AIGFP's continues to reassess the expected maturity of this portfolio. As of September 30, 2010, AIGFP estimated that the weighted average expected maturity of the portfolio was 2.18 years. AIGFP has not been required to make any payments as part of terminations initiated by

counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of Basel I that existed through the end of 2007 and which is in the process of being replaced by Basel II. It was expected that financial institution counterparties would have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they would have received little or no additional regulatory benefit from these CDS transactions, except in a small number of specific instances. However, in 2009, the Basel Committee announced that it had agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame.

Arbitrage Portfolio

The arbitrage portfolio includes arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade senior unsecured corporate debt or CLOs.

The outstanding multi-sector CDO portfolio at September 30, 2010 was written on CDO transactions (including synthetic CDOs) that generally held a concentration of RMBS, CMBS and inner CDO securities. At September 30, 2010, approximately $3.3 billion net notional amount (fair value liability of $2.0 billion) of this portfolio was written on super senior multi-sector CDOs that contain some level of sub-prime RMBS collateral, with a concentration in the 2005 and earlier vintages of sub-prime RMBS. AIGFP's portfolio also included both high grade and mezzanine CDOs.

The majority of multi-sector CDO CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with such transactions only if realized credit losses in respect of the underlying portfolio exceed AIGFP's attachment point. In the remainder of the portfolio, AIGFP's payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

Included in the multi-sector CDO portfolio are 2a-7 Puts. Holders of securities are required, in certain circumstances, to tender their securities to the issuer at par. If an issuer's remarketing agent is unable to resell the securities so tendered, AIGFP must purchase the securities at par so long as the security has not experienced a payment default or certain bankruptcy events with respect to the issuer of such security have not occurred. At September 30, 2010 and December 31, 2009, there were $385 million and $1.6 billion, respectively, of net notional amount of 2a-7 Puts issued by AIGFP outstanding. During the third quarter of 2010, $423 million of net notional amount of 2a-7 Puts were terminated. AIGFP is not a party to any commitments to issue any additional 2a-7 Puts.

ML III has agreed not to exercise its put option on multi-sector CDOs or simultaneously to exercise its put option with a corresponding par purchase of the multi-sector CDOs with respect to the $138 million notional amount of multi-sector CDOs held by ML III with 2a-7 Puts that may be exercised on or prior to December 31, 2010 and $73 million notional amount of multi-sector CDOs held by ML III with 2a-7 Puts that may be exercised on or prior to April 30, 2011. In addition, there are $174 million notional amount of multi-sector CDOs held by ML III with 2a-7 Puts that may not be exercised on or prior to December 31, 2010, for which ML III has only agreed not to exercise its put option on multi-sector CDOs or simultaneously to exercise its put option with a corresponding par purchase of the multi-sector CDOs through December 31, 2010. In exchange, AIGFP has agreed to pay to ML III the consideration that it receives for providing the put protection. Additionally, ML III has agreed that if it sells any such multi-sector CDO with a 2a-7 Put to a third-party purchaser, such sale will be conditioned upon, among other things, such third-party purchaser agreeing that until the legal final maturity date of such multi-sector CDO it will not exercise its put option on such multi-sector CDO or it will make a corresponding par purchase of such multi-sector CDO simultaneously with the exercise of its put option. In

exchange for such commitment from the third-party purchaser, AIGFP will agree to pay to such third-party purchaser the consideration that it receives for providing the put protection.

ML III has agreed to assist AIGFP in efforts to mitigate or eliminate AIGFP's obligations under such 2a-7 Puts relating to multi-sector CDOs held by ML III prior to the expiration of ML III's obligations with respect to such multi-sector CDOs. During the nine-month period ended September 30, 2010, AIGFP was successful, with the cooperation of ML III, in eliminating AIGFP's obligations under such 2a-7 Puts in respect of ML III's holdings of 2a-7 Puts securities with put dates during the period, with the exception of one transaction with a net notional amount of approximately $138 million for which no such elimination is permitted by the terms of the transaction agreement. To the extent that ML III has not sold such multi-sector CDO to a third party who has committed not to exercise its put option on such multi-sector CDO or to make a corresponding par purchase of such multi-sector CDO simultaneously with the exercise of its put option then, upon the expiration of ML III's aforementioned obligations with respect to such multi-sector CDO, AIGFP will be obligated under the related 2a-7 Put to purchase such multi-sector CDO at par in the circumstances and subject to the limited conditions contained in the applicable agreements.

The corporate arbitrage portfolio consists principally of CDS transactions written on portfolios of senior unsecured corporate obligations that were generally rated investment grade at inception of the CDS. These CDS transactions require cash settlement. Also, included in this portfolio are CDS transactions with a net notional amount of $1.5 billion written on the senior part of the capital structure of CLOs, which require physical settlement.

Certain of the super senior credit default swaps provide the counterparties with an additional termination right if AIG's rating level falls to BBB or Baa2. At that level, counterparties to the CDS transactions with a net notional amount of $6.1 billion at September 30, 2010 have the right to terminate the transactions early. If counterparties exercise this right, the contracts provide for the counterparties to be compensated for the cost to replace the transactions, or an amount reasonably determined in good faith to estimate the losses the counterparties would incur as a result of the termination of the transactions.

Due to long-term maturities of the CDS in the arbitrage portfolio, AIG is unable to make reasonable estimates of the periods during which any payments would be made. However, the net notional amount represents the maximum exposure to loss on the super senior credit default swap portfolio.

Collateral

Most of AIGFP's super senior credit default swaps are subject to collateral posting provisions, which typically are governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements (Master Agreements) and related Credit Support Annexes (CSA). These provisions differ among counterparties and asset classes. AIGFP has received collateral calls from counterparties in respect of certain super senior credit default swaps, of which a large majority relate to multi-sector CDOs. To a lesser extent, AIGFP has also received collateral calls in respect of certain super senior credit default swaps entered into by counterparties for regulatory capital relief purposes and in respect of corporate arbitrage.

The amount of future collateral posting requirements is a function of AIG's credit ratings, the rating of the reference obligations and the market value of the relevant reference obligations, with the latter being the most significant factor. While a high level of correlation exists between the amount of collateral posted and the valuation of these contracts in respect of the arbitrage portfolio, a similar relationship does not exist with respect to the regulatory capital portfolio given the nature of how the amount of collateral for these transactions is determined. Given the severe market disruption, lack of observable data and the uncertainty of future market price movements, AIGFP is unable to reasonably estimate the amounts of collateral that it may be required to post in the future.

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At September 30, 2010 and December 31, 2009, the amounts of collateral postings with respect to AIGFP's super senior credit default swap portfolio (prior to offsets for other transactions) were $3.9 billion and $4.6 billion, respectively.

AIGFP Written Single Name Credit Default Swaps

AIGFP has also entered into credit default swap contracts referencing single-name exposures written on corporate, index, and asset-backed credits, with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long short strategy allowing AIGFP to earn the net spread between CDS it wrote and ones they purchased. At September 30, 2010, the net notional amount of these written CDS contracts was $1.7 billion. AIGFP has hedged these exposures by purchasing offsetting CDS contracts of $260 million in net notional amount. The net unhedged position of approximately $1.4 billion represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is 6.71 years. At September 30, 2010, the fair value of derivative liability (which represents the carrying value) of the portfolio of CDS was $164 million.

Upon a triggering event (e.g., a default) with respect to the underlying credit, AIGFP would normally have the option to settle the position through an auction process (cash settlement) or pay the notional amount of the contract to the counterparty in exchange for a bond issued by the underlying credit obligor (physical settlement).

AIGFP wrote these written CDS contracts under Master Agreements. The majority of these Master Agreements include CSA, which provide for collateral postings at various ratings and threshold levels. At September 30, 2010, AIGFP had posted $175 million of collateral under these contracts.

All Other Derivatives

AIG's non-Capital Markets businesses also use derivatives and other instruments as part of their financial risk management programs. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with investments in fixed income securities, outstanding medium- and long-term notes, and other interest rate sensitive assets and liabilities. In addition, foreign exchange derivatives (principally foreign exchange forwards and options) are used to economically mitigate risk associated with non-U.S. dollar denominated debt, net capital exposures and foreign exchange transactions. The derivatives are effective economic hedges of the exposures they are meant to offset.

In addition to hedging activities, AIG also uses derivative instruments with respect to investment operations, which include, among other things, credit default swaps, and purchasing investments with embedded derivatives, such as equity linked notes and convertible bonds.

Matched Investment Program Written Credit Default Swaps

AIG's MIP operations, which are reported in AIG's Other operations category as part of Asset Management Direct Investment business, are currently in run-off. Through the MIP, AIG has entered into CDS contracts as a writer of protection, with the intention of earning spread income on credit exposure in an unfunded form. The portfolio of CDS contracts were single-name exposures and, at inception, were predominantly high grade corporate credits.

These contracts were written through AIG Markets, which then transacted directly with unaffiliated third parties under ISDA agreements. As of September 30, 2010, the notional amount of written CDS contracts was $3.9 billion with an average credit rating of BBB+. At that date, the average maturity of the written CDS contracts was 1.7 years and the fair value of the derivative liability (which represents the carrying value) of the MIP's written CDS was $53 million.

The majority of the ISDA agreements include CSA provisions, which provide for collateral postings at various ratings and threshold levels. At September 30, 2010, $21 million of collateral was posted for CDS contracts related

to the MIP. The notional amount represents the maximum exposure to loss on the written CDS contracts. However, due to the average investment grade rating and expected default recovery rates, actual losses are expected to be less.

Upon a triggering event (e.g., a default) with respect to the underlying credit, AIG Markets would normally have the option to settle the position on behalf of the MIP through an auction process (cash settlement) or pay the notional amount of the contract to the counterparty in exchange for a bond issued by the underlying credit (physical settlement).

Credit Risk-Related Contingent Features

AIG transacts in derivative transactions directly with unaffiliated third parties under ISDA agreements. Many of the ISDA agreements also include CSA provisions, which provide for collateral postings at various ratings and threshold levels. In addition, AIG attempts to reduce credit risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis.

The aggregate fair value of AIG's derivative instruments, including those of AIGFP, that contain credit risk-related contingent features that were in a net liability position at September 30, 2010 was approximately $6.8 billion. The aggregate fair value of assets posted as collateral under these contracts at September 30, 2010 was $6.5 billion.

It is estimated that at September 30, 2010, based on AIG's outstanding financial derivative transactions, including those of AIGFP at that date, a one-notch downgrade of AIG's long-term senior debt ratings to Baa1 by Moody's Investors Service (Moody's) and BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit the counterparties to elect early termination of contracts, resulting in up to approximately $1.2 billion of corresponding collateral postings and termination payments; a two-notch downgrade to Baa2 by Moody's and BBB by S&P would result in approximately $1.2 billion in additional collateral postings and termination payments above the one-notch downgrade amount; and a three-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately $0.2 billion in additional collateral postings and termination payments above the two-notch downgrade amount. Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of September 30, 2010. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Management's estimates are also based on the assumption that counterparties will terminate based on their net exposure to AIG. The actual termination payments could significantly differ from management's estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

Hybrid Securities with Embedded Credit Derivatives

AIG has certain investments in synthetic structured securities, including certain RMBS, CMBS, CDOs and other ABS, that contain embedded written credit derivatives. These hybrid securities expose AIG to risks similar to the risks in other RMBS, CMBS, CDOs and ABS, but such risk is derived from credit default swaps or similar derivative instruments rather than from direct interests in mortgages and other debt instruments. As with other investments in RMBS, CMBS, CDOs and other ABS, AIG invested in these hybrid securities with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. The original cash investment made by AIG was used by the entity that issued the hybrid security to invest in eligible investments that are generally highly rated and serve as collateral for the credit default swap or similar derivative instrument written by the issuing entity. Similar to AIG's other investments in RMBS, CMBS, CDOs and ABS, AIG's

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investments in the hybrid securities with embedded written credit derivatives are exposed to losses only up to the amount of AIG's initial investment in the hybrid security, as losses on the credit default swap or other derivative instrument will be paid by via the collateral held by the entity that issues the hybrid security. Losses on the embedded credit default swaps may be triggered by events such as bankruptcy, failure to pay or restructuring associated with the obligations referenced by the derivative, and these losses in turn result in the reduction of the principal amount to be repaid to AIG and other investors in the hybrid securities. Other than AIG's initial investment in the hybrid securities, AIG has no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

Effective July 1, 2010, AIG elected to account for its investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in earnings. Through June 30, 2010, these hybrid securities had been accounted for as available for sale securities, and had been subject to other than temporary impairment accounting as applicable.

AIG's investments in hybrid securities, such as RMBS, CMBS, CDOs and other ABS, that contain embedded written credit derivatives, which are accounted for at fair value, are reported as Bond trading securities on the Consolidated Balance Sheet. The fair value of these hybrid securities was $142 million at September 30, 2010. These securities have a current par amount of $630 million and have remaining stated maturity dates that extend to 2056.

9. Commitments, Contingencies and Guarantees

In the normal course of business, various commitments and contingent liabilities are entered into by AIG and certain of its subsidiaries. In addition, AIG guarantees various obligations of certain subsidiaries.

Although AIG cannot currently quantify its ultimate liability for unresolved litigation and investigation matters including those referred to below, it is possible that such liability could have a material adverse effect on AIG's consolidated financial condition or its consolidated results of operations or consolidated cash flows for an individual reporting period.

(a) Litigation and Regulatory Matters

Overview. AIG and its subsidiaries, in common with the insurance and financial services industries in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. In AIG's insurance operations (including United Guaranty Corporation (UGC)), litigation arising from claims settlement activities is generally considered in the establishment of AIG's liability for unpaid claims and claims adjustment expense. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of federal and state securities laws.

Various federal, state and foreign regulatory and governmental agencies have been reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with, among other matters, AIG's liquidity concerns, payments by AIG subsidiaries to non-U.S. persons and industry-wide and other inquiries including matters relating to compensation paid to employees and payments made to AIGFP counterparties. These reviews included investigations by the U.S. Securities and Exchange Commission (SEC) with respect to the valuation of AIGFP's multi-sector CDO super senior credit default swap portfolio under fair value accounting rules, and the adequacy of AIG's enterprise risk management processes with respect to AIG's exposure to the U.S. residential mortgage market, and disclosures relating thereto. There was also an investigation by the U.K. Serious Fraud Office (SFO) and an inquiry by the U.K. Financial Services Authority (FSA) with respect to the U.K. operations of AIGFP. On May 21, 2010, the U.S. Department of Justice (DOJ) informed AIG that it had determined not to initiate any criminal proceedings against AIG, AIGFP or any of its current or former employees. On June 3, 2010, the SFO informed AIG that it had terminated its investigation without initiating any

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criminal or civil proceedings. On June 16, 2010, the SEC informed AIG that it had concluded its investigation and determined not to bring civil charges against AIG or any of its current or former employees. On June 30, 2010, the FSA informed AIG that it had terminated its investigation without any enforcement action. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

Although the specific SEC investigations discussed above have been resolved, AIG cannot predict whether Wells notices will be sent to employees or former employees with respect to any other investigation. Under SEC procedures, a Wells notice is an indication that the SEC staff has made a preliminary decision to recommend enforcement action that provides recipients with an opportunity to respond to the SEC staff before a formal recommendation is finalized.

AIG's Subprime Exposure, Capital Markets Credit Default Swap Portfolio and Related Matters

AIG, AIGFP and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to AIG's exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to AIG's securities lending program and related disclosure and other matters (Subprime Exposure Issues).

Consolidated 2008 Securities Litigation. Between May 21, 2008 and January 15, 2009, eight purported securities class action complaints were filed against AIG and certain directors and officers of AIG and AIGFP, AIG's outside auditors, and the underwriters of various securities offerings in the United States District Court for the Southern District of New York (the Southern District of New York), alleging claims under the Securities Exchange Act of 1934 (the Exchange Act) or claims under the Securities Act of 1933 (the Securities Act). On March 20, 2009, the Court consolidated all eight of the purported securities class actions as In re American International Group, Inc. 2008 Securities Litigation (the Consolidated 2008 Securities Litigation).

On May 19, 2009, lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG stock during the alleged class period of March 16, 2006 through September 16, 2008, and on behalf of purchasers of various AIG securities offered pursuant to AIG's shelf registration statements. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG's stock. The alleged false and misleading statements relate to, among other things, the Subprime Exposure Issues. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants filed motions to dismiss the consolidated complaint, and on September 27, 2010 the Court denied the motions to dismiss.

ERISA Actions Southern District of New York. Between June 25, 2008, and November 25, 2008, AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee were named as defendants in eight purported class action complaints asserting claims on behalf of participants in certain pension plans sponsored by AIG or its subsidiaries. On March 19, 2009, the Court consolidated these eight actions as In re American International Group, Inc. ERISA Litigation II. On June 26, 2009, lead plaintiffs' counsel filed a consolidated amended complaint. The action purports to be brought as a class action under the Employee Retirement Income Security Act of 1974, as amended (ERISA) on behalf of all participants in or beneficiaries of certain benefit plans of AIG and its subsidiaries that offered shares of AIG's common stock. In the consolidated amended complaint, plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the plans after it allegedly became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose certain matters, including the Subprime Exposure Issues. On September 18, 2009, defendants filed motions to dismiss the consolidated amended complaint, and those motions are pending.

American International Group, Inc. and Subsidiaries

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Consolidated 2007 Derivative Litigation. On November 20, 2007 and August 6, 2008, purported shareholder derivative actions were filed in the Southern District of New York naming as defendants directors and officers of AIG and its subsidiaries and asserting claims on behalf of nominal defendant AIG. The actions have been consolidated as In re American International Group, Inc. 2007 Derivative Litigation (the Consolidated 2007 Derivative Litigation). On June 3, 2009, lead plaintiff filed a consolidated amended complaint naming additional directors and officers of AIG and its subsidiaries as defendants. As amended, the factual allegations include the Subprime Exposure Issues and AIG and AIGFP employee retention payments and related compensation issues. The claims asserted on behalf of nominal defendant AIG include breach of fiduciary duty, waste of corporate assets, unjust enrichment, contribution and violations of Sections 10(b) and 20(a) of the Exchange Act. On August 5 and 26, 2009, AIG and defendants filed motions to dismiss the consolidated amended complaint. On December 18, 2009, a separate action, previously commenced in the Central District of California and transferred to the Southern District of New York on June 5, 2009, was consolidated into the Consolidated 2007 Derivative Litigation and dismissed without prejudice to the pursuit of the claims in the Consolidated 2007 Derivative Litigation.

On March 30, 2010, the Court dismissed the action due to plaintiff's failure to make a pre-suit demand on AIG's Board of Directors. On March 31, 2010, judgment was entered. On April 29, 2010, plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit.

Other Derivative Actions. Separate purported derivative actions, alleging similar claims as the Consolidated 2007 Derivative Litigation, have been brought asserting claims on behalf of the nominal defendant AIG in various jurisdictions. These actions are all stayed pending further proceedings in the Consolidated 2007 Derivative Litigation (except the Supreme Court of New York, New York County case, but no defendant has been served in that case). These actions are described below:

Supreme Court of New York, Nassau County. On February 29, 2008, a purported shareholder derivative complaint was filed in the Supreme Court of Nassau County, naming as defendants certain directors and officers of AIG and its subsidiaries.

Supreme Court of New York, New York County. On March 20, 2009, a purported shareholder derivative complaint was filed in the Supreme Court of New York County naming as defendants certain directors and officers of AIG and recipients of AIGFP retention payments. The complaint has not been served on any defendant.

Delaware Court of Chancery. On September 17, 2008, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery, naming as defendants certain directors and officers of AIG and its subsidiaries.

Delaware Court of Chancery. On January 15, 2009, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery, naming as defendants certain directors of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP.

Superior Court for the State of California, Los Angeles County. On April 1, 2009, a purported shareholder derivative complaint was filed in the Superior Court for the State of California, Los Angeles County, naming as defendants certain directors and officers of AIG. On September 30, 2009, the plaintiff in this action moved to intervene in the Consolidated 2007 Derivative Litigation. On December 23, 2009, the Court in the Consolidated 2007 Derivative Litigation denied that motion.

Superior Court for the State of California, Los Angeles County. On November 20, 2009, a purported shareholder derivative complaint was filed in the Superior Court for the State of California, Los Angeles County, naming as defendants certain former and present directors and officers of AIG and its subsidiaries.

Canadian Securities Class Action Ontario Superior Court of Justice. On November 12, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported class action against AIG, AIGFP,

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certain directors and officers of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, pursuant to the Ontario Securities Act. If the Court grants the application, a class plaintiff will be permitted to file a statement of claim against defendants. The proposed statement of claim would assert a class period of November 10, 2006 through September 16, 2008 (later amended to March 16, 2006 through September 16, 2008) and would allege that during this period defendants made false and misleading statements and omissions in quarterly and annual reports and during oral presentations in violation of the Ontario Securities Act. On April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. On July 12, 2010, the Court adjourned a hearing on the motion pending a decision by the Supreme Court of Canada in another action with respect to similar issues raised in the action pending against AIG.

Other Litigation Related to AIGFP

On September 30, 2009, Brookfield Asset Management, Inc. and Brysons International, Ltd. (together, Brookfield) filed a complaint against AIG and AIGFP in the Southern District of New York. Brookfield seeks a declaration that a 1990 interest rate swap agreement between Brookfield and AIGFP (guaranteed by AIG) terminated upon the occurrence of certain alleged events that Brookfield contends constituted defaults under the swap agreement's standard "bankruptcy" default provision. Brookfield claims that it is excused from all future payment obligations under the swap agreement on the basis of the purported termination. At September 30, 2010, the estimated present value of expected future cash flows discounted at LIBOR was $1.4 billion. It is AIG's position that no termination event has occurred and that the swap agreement remains in effect.

A determination that AIG triggered a "bankruptcy event of default" under the swap agreement could, depending on the Court's precise holding, affect other AIG or AIGFP agreements that contain the same or similar default provisions. Such a determination could also affect derivative agreements or other contracts between third parties, such as credit default swaps under which AIG is a reference credit, which could affect the trading price of AIG securities. On December 17, 2009 defendants filed a motion to dismiss. On September 28, 2010, the Court issued a decision granting defendants' motion in part and denying it in part, holding that the complaint: (i) failed to allege that an event of default had occurred based upon defendants' failure to pay or inability to pay debts as they became due; but, (ii) sufficiently alleged that an event of default had occurred based upon other sections of the swap agreement's "bankruptcy" default provision.

Securities Lending Dispute with Transatlantic Holdings Inc.

On May 24, 2010, Transatlantic Holdings, Inc. (Transatlantic) and two of its subsidiaries, Transatlantic Reinsurance Company and Trans Re Zurich Reinsurance Company Ltd. (collectively, Claimants), commenced an arbitration proceeding before the American Arbitration Association in New York against AIG and two of its subsidiaries. Claimants allege breach of contract, breach of fiduciary duty, and common law fraud in connection with certain securities lending agency agreements between AIG's subsidiaries and Claimants. Claimants allege that AIG and its subsidiaries should be liable for the losses that Claimants purport to have suffered in connection with securities lending and investment activities, and seek damages in excess of $350 million. It is AIG's position that there was no breach of the operative agreements, and that Claimants' other allegations including purported breach of fiduciary duty and fraud are not meritorious.

On June 29, 2010, AIG brought a petition in the Supreme Court of the State of New York, seeking to enjoin the arbitration on the ground that AIG is not a party to the securities lending agency agreements with Claimants. On July 29, 2010, the parties agreed to resolve that petition by consolidating the arbitration commenced by Claimants with a separate arbitration, commenced by AIG on June 29, 2010, in which AIG is seeking damages from Transatlantic for breach of a Master Separation Agreement among Transatlantic, AIG and one of its subsidiary companies.

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ALICO Life International Limited's Italian Internal Fund Suspensions

Certain policyholders of certain unit-linked funds offered by the Italian branch of ALICO Life International Limited (ALIL), the Irish subsidiary of ALICO, have either commenced or threatened litigation against ALIL's Italian branch as a result of the suspension of withdrawals from and diminution in value of those funds since late 2008, alleging damages for misrepresentation, mis-selling, improper or inadequate disclosures and other related claims against ALIL.

Most of the lawsuits are in early stages of litigation. In March 2010, ALIL learned that the public prosecutor in Milan had opened a formal investigation into the actions of employees and former employees of ALIL, as well as employees of ALIL's major distributor, based on a policyholder's complaint.

ALIL is cooperating with the Italian and Irish regulatory authorities, which have jurisdiction in connection with this matter, and is in discussions to address their concerns as well as those of the affected policyholders.

Under the terms of the ALICO Stock Purchase Agreement, pursuant to which MetLife has acquired ALICO as of November 1, 2010, AIG has agreed to indemnify MetLife and its affiliates in respect of any third party claims and regulatory fines associated with ALIL's suspended funds.

Settlement Agreement with the Starr Parties

On November 25, 2009, a settlement agreement and memorandum of understanding (the AIG/Greenberg MOU) was entered into by AIG, on the one hand, and AIG's former Chief Executive Officer, Maurice R. Greenberg, AIG's former Chief Financial Officer, Howard I. Smith, C.V. Starr & Company, Inc. (C.V. Starr) and Starr International Company, Inc. (SICO), on the other hand (the Starr Parties). Under the terms of the AIG/Greenberg MOU, the parties have agreed to release each other from all claims, including any claims by Greenberg and Smith against AIG for indemnification of future legal fees and expenses or settlement costs.

In addition, pursuant to the AIG/Greenberg MOU:

- SICO agreed to undertake to dismiss with prejudice an action it brought against AIG in the Tribuna del Circuito Civil, Panama City, Panama. On February 10, 2010, the parties filed a joint request to dismiss the case. On March 2, 2010, the Court posted its approval of the dismissal of claims and the action was terminated.

- AIG agreed to undertake to dismiss with prejudice its direct claims against Greenberg and Smith in the Delaware 2004/2005 Derivative Litigation. On February 5, 2010, AIG, Greenberg and Smith submitted a stipulation to the Court dismissing AIG's direct claims against Greenberg and Smith.

The Starr Parties have taken the position that the AIG/Greenberg MOU also releases certain of the derivative claims being pursued by the shareholder plaintiffs in the Delaware 2004/2005 Derivative Litigation and the New York 2004/2005 Derivative Litigation. AIG has taken the opposite position. The Delaware 2004/2005 Derivative Litigation and the New York 2004/2005 Derivative Litigation are described below under "Litigation Related to the Matters Underlying the 2006 Regulatory Settlements."

2006 Regulatory Settlements and Related Regulatory Matters

2006 Regulatory Settlements. In February 2006, AIG reached a resolution of claims and matters under investigation with the DOJ, the SEC, the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). The settlements resolved investigations conducted by the SEC, NYAG and DOI in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers' compensation premium taxes and other assessments. These settlements did not, however, resolve investigations by regulators from other states into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

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As a result of these settlements, AIG made payments or placed amounts in escrow in 2006 totaling approximately $1.64 billion, $225 million of which represented fines and penalties. Amounts held in escrow totaling approximately $338 million, including interest thereon, are included in Other assets at September 30, 2010. At that date, all of the funds were escrowed for settlement of claims resulting from the underpayment by AIG of its residual market assessments for workers' compensation.

In addition to the escrowed funds, $800 million was deposited into, and subsequently disbursed by, a fund under the supervision of the SEC, to resolve claims asserted against AIG by investors, including the securities class action and shareholder lawsuits described below.

Also, as part of the settlements, AIG agreed to retain, for a period of three years, an independent consultant to conduct a review that included, among other things, the adequacy of AIG's internal control over financial reporting, the policies, procedures and effectiveness of AIG's regulatory, compliance and legal functions and the remediation plan that AIG implemented as a result of its own internal review.

Other Regulatory Settlements. AIG's 2006 regulatory settlements with the SEC, DOJ, NYAG and DOI did not resolve investigations by regulators from other states into insurance brokerage practices. AIG entered into agreements effective in early 2008 with the Attorneys General of the States of Florida, Hawaii, Maryland, Michigan, Oregon, Texas and West Virginia; the Commonwealths of Massachusetts and Pennsylvania; and the District of Columbia; as well as the Florida Department of Financial Services and the Florida Office of Insurance Regulation, relating to their respective industry-wide investigations into producer compensation and insurance placement practices. The settlements called for total payments of $26 million by AIG, of which $4.4 million was paid under previous settlement agreements. During the term of the settlement agreements, which run through early 2018, AIG will continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. AIG will also continue to cooperate with the industry-wide investigations. On April 7, 2010, it was announced that AIG and the Ohio Attorney General entered into a settlement agreement to resolve the Ohio Attorney General's claim concerning producer compensation and insurance placement practices. AIG paid the Ohio Attorney General $9 million as part of that settlement.

NAIC Examination of Workers' Compensation Premium Reporting. During 2006, the Settlement Review Working Group of the National Association of Insurance Commissioners (NAIC), under the direction of the States of Indiana, Minnesota and Rhode Island, began an investigation into AIG's reporting of workers' compensation premiums. In late 2007, the Settlement Review Working Group recommended that a multi-state targeted market conduct examination focusing on workers' compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination are Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania, and Rhode Island. All other states (and the District of Columbia) have agreed to participate in the multi-state examination. To date, the examination has focused on legacy issues related to AIG's writing and reporting of workers' compensation insurance prior to 1996. AIG has also been advised that the examination will focus on current compliance with legal requirements applicable to such business.

Litigation Related to the Matters Underlying the 2006 Regulatory Settlements

AIG and certain present and former directors and officers of AIG have been named in various actions related to the matters underlying the 2006 Regulatory Settlements. These actions are described below.

The Consolidated 2004 Securities Litigation. Beginning in October 2004, a number of putative securities fraud class action suits were filed in the Southern District of New York against AIG and consolidated as In re American International Group, Inc. Securities Litigation (the Consolidated 2004 Securities Litigation). Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds. The lead plaintiff in the Consolidated 2004 Securities Litigation is a group of public retirement systems and pension funds benefiting Ohio state employees, suing on behalf of themselves and all purchasers of AIG's publicly

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traded securities between October 28, 1999 and April 1, 2005. The named defendants are AIG and a number of present and former AIG officers and directors, as well as Starr, SICO, General Reinsurance Corporation (General Re), and PricewaterhouseCoopers LLP (PwC), among others. The lead plaintiff alleges, among other things, that AIG: (1) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (2) concealed that it used "income smoothing" products and other techniques to inflate its earnings; (3) concealed that it marketed and sold "income smoothing" insurance products to other companies; and (4) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that Greenberg manipulated AIG's stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 20(a) and Section 20A of the Exchange Act.

In October 2009, the lead plaintiff advised the Court that it had entered into a settlement agreement with Greenberg, Smith, Christian M. Milton, Michael J. Castelli, SICO and Starr. At the lead plaintiff's request, the Court has entered an order dismissing all of the lead plaintiff's claims against these defendants "without prejudice" to any party. The lead plaintiff has also voluntarily dismissed Frank Hoenemeyer, L. Michael Murphy, and Richmond Insurance Company, Ltd.

On February 22, 2010, the Court issued an opinion granting, in part, lead plaintiffs' motion for class certification. The Court rejected lead plaintiffs' request to include in the class purchasers of certain AIG bonds and declined to certify a class with respect to certain counts of the complaint and dismissed those claims for lack of standing. With respect to the remaining claims under the Exchange Act on behalf of putative class members who had purchased AIG Common Stock, the Court declined to certify a class as to certain defendants other than AIG and rejected lead plaintiffs' claims that class members could establish injury based on disclosures on two of the six dates lead plaintiffs had proposed, but certified a class consisting of all shareholders who purchased or otherwise acquired AIG Common Stock during the class period of October 28, 1999 to April 1, 2005, and who possessed that stock over one or more of the dates October 14, 2004, October 15, 2004, March 17, 2005 or April 1, 2005, as well as persons who held AIG Common Stock in two companies at the time they were acquired by AIG in exchange for AIG Common Stock, and were allegedly damaged thereby. In light of the class certification decision, on March 5, 2010, the Court denied as moot General Re's and lead plaintiffs' motion to certify their proposed settlement, and on March 18, 2010, PwC withdrew its motion to approve its proposed settlement with lead plaintiffs. Lead plaintiffs and AIG each filed petitions requesting permission to file an interlocutory appeal of the class certification decision. AIG, General Re, Richard Napier and Ronald Ferguson each filed opposition briefs to lead plaintiffs' petition.

On May 17, 2010, PwC and lead plaintiffs jointly moved for final approval of their settlement as proposed prior to class certification. On September 15, 2010, the Court scheduled a hearing for November 30, 2010 to determine whether the settlement between PwC and lead plaintiffs is fair, reasonable and adequate. On June 23, 2010, General Re and lead plaintiffs jointly moved for preliminary approval of their settlement. On September 10, 2010, the Court issued an opinion denying the motion for preliminary approval and, on September 23, 2010, the Court dismissed the lead plaintiffs' causes of action with respect to General Re.

On June 28, 2010, the U.S. Court of Appeals for the Second Circuit granted AIG's petition seeking permission to file an interlocutory appeal of the class certification decision, and denied the petition by lead plaintiffs. On September 1, 2010, AIG and lead plaintiffs entered into a stipulation to withdraw AIG's interlocutory appeal without prejudice to reinstate the appeal in the future, which has been endorsed by the U.S. Court of Appeals for the Second Circuit.

On July 14, 2010, AIG approved the terms of a settlement (the Settlement) with lead plaintiffs. The Settlement is conditioned on, among other things, court approval and a minimum level of shareholder participation. Under the terms of the Settlement, if consummated, AIG will pay an aggregate of $725 million, $175 million of which is to be paid into escrow within ten days of preliminary court approval. AIG's obligation to fund the remainder of the settlement amount is conditioned on its having consummated one or more common stock offerings raising net

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proceeds of at least $550 million prior to final court approval (Qualified Offering). AIG has agreed to use best efforts, consistent with the fiduciary duties of AIG's management and Board of Directors, to effect a Qualified Offering, but the decision as to whether market conditions or pending or contemplated corporate transactions make it commercially reasonable to proceed with such an offering will be within AIG's unilateral discretion. In the event that AIG effects a registered secondary offering of common stock on behalf of the Department of the Treasury resulting in the Department of the Treasury receiving proceeds of at least $550 million, then market access will be deemed to have been demonstrated and AIG shall be deemed to have consummated a Qualified Offering. AIG, in its sole discretion, also may fund the $550 million from other sources. If AIG does not fund the $550 million before final court approval of the Settlement, lead plaintiffs may terminate the agreement, elect to acquire freely transferable shares of AIG Common Stock with a market value of $550 million provided AIG is able to obtain all necessary approvals, or extend the period for AIG to complete a Qualified Offering.

On July 20, 2010, at the joint request of AIG and lead plaintiffs, the District Court entered an order staying all deadlines in the case.

The New York 2004/2005 Derivative Litigation. Between October 25, 2004 and July 14, 2005, seven separate derivative actions were filed in the Southern District of New York, five of which were consolidated into a single action (the New York 2004/2005 Derivative Litigation). The complaint in this action contains nearly the same types of allegations made in the Consolidated 2004 Securities Litigation. The named defendants include current and former officers and directors of AIG, as well as Marsh & McLennan Companies, Inc. (Marsh), SICO, Starr, ACE Limited and subsidiaries (Ace), General Re, PwC, and certain employees or officers of these entity defendants. Plaintiffs assert claims for breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, insider selling, auditor breach of contract, auditor professional negligence and disgorgement from Greenberg and Smith of incentive-based compensation and AIG share proceeds under Section 304 of the Sarbanes-Oxley Act, among others. Plaintiffs seek, among other things, compensatory damages, corporate governance reforms, and a voiding of the election of certain AIG directors. AIG's Board of Directors has appointed a special committee of independent directors (Special Committee) to review the matters asserted in the operative consolidated derivative complaint. The Court has entered an order staying this action pending resolution of the Delaware 2004/2005 Derivative Litigation discussed below. The Court also has entered an order that termination of certain named defendants from the Delaware action applies to this action without further order of the Court. On February 26, 2009, the Court dismissed those AIG officer and director defendants against whom the shareholder plaintiffs in the Delaware action had not pursued claims.

Under the AIG/Greenberg MOU, AIG agreed to undertake to dismiss with prejudice its claims against Greenberg and Smith in the New York 2004/2005 Derivative Litigation. The Starr Parties have taken the position that the AIG/Greenberg MOU also releases the derivative claims being pursued by the shareholder plaintiffs in this litigation. AIG has taken the opposite position.

On August 25, 2010, AIG entered into a settlement agreement with the other parties to the derivative litigations which was submitted by plaintiffs to the Delaware Court of Chancery on August 26, 2010. The settlement is conditioned on a separate agreement with AIG's directors and officers liability (D&O) insurers, under which the insurers would pay $150 million, $90 million of which would fund the settlement of the derivative claims and which, after the deduction of expenses and plaintiffs' counsel's attorneys' fees, would be paid to AIG. The remaining $60 million would be used to cover attorneys' fees and expenses incurred by Maurice Greenberg and Howard Smith.

The Delaware 2004/2005 Derivative Litigation. From October 2004 to April 2005, AIG shareholders filed five derivative complaints in the Delaware Chancery Court. All of these derivative lawsuits were consolidated into a single action as In re American International Group, Inc. Consolidated Derivative Litigation (the Delaware 2004/2005 Derivative Litigation). The amended consolidated complaint named 43 defendants (not including nominal defendant AIG) who, as in the New York 2004/2005 Derivative Litigation, were current and former officers and directors of AIG, as well as other entities and certain of their current and former employees and

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directors. The factual allegations, legal claims and relief sought in this action are similar to those alleged in the New York 2004/2005 Derivative Litigation, except that the claims are only under state law.

In early 2007, the Court approved an agreement that AIG be realigned as plaintiff, and, on June 13, 2007, acting on the direction of the Special Committee, AIG filed an amended complaint against former directors and officers Greenberg and Smith, alleging breach of fiduciary duty and indemnification. Also on June 13, 2007, the Special Committee filed a motion to terminate the litigation as to certain defendants, while taking no action as to others. Defendants Greenberg and Smith filed answers to AIG's complaint and brought third-party complaints against certain current and former AIG directors and officers, PwC and INS Regulatory Insurance Services, Inc. On September 28, 2007, AIG and the shareholder plaintiffs filed a combined amended complaint in which AIG continued to assert claims against defendants Greenberg and Smith and took no position as to the claims asserted by the shareholder plaintiffs in the remainder of the combined amended complaint. In that pleading, the shareholder plaintiffs are no longer pursuing claims against certain AIG officers and directors. On February 12, 2008, the Court granted AIG's motion to stay discovery pending the resolution of claims against AIG in the Consolidated 2004 Securities Litigation.

On April 11, 2008, the shareholder plaintiffs filed the First Amended Combined Complaint, which added claims against former AIG directors and officers Greenberg, Edward Matthews, and Thomas Tizzio for breach of fiduciary duty based on alleged bid-rigging in the municipal derivatives market. On June 13, 2008, certain defendants filed motions to dismiss the shareholder plaintiffs' portions of the complaint. On February 10, 2009, the Court denied the motions to dismiss filed by Greenberg, Matthews, and Tizzio; granted the motion to dismiss filed by PwC without prejudice; and granted the motion to dismiss filed by certain former employees of AIG without prejudice for lack of personal jurisdiction. On March 6, 2009, the Court granted an Order of Dismissal, Notice and Order of Voluntary Dismissal and Stipulation and Order of Dismissal to dismiss those individual defendants who were similarly situated to the individuals dismissed by the Court for lack of personal jurisdiction. On March 12, 2009, Defendant Greenberg filed his verified answer to AIG's complaint; cross-claims against Marsh, ACE, General Re, and Tizzio; and a third-party complaint against certain current and former AIG directors and officers, as well as INS Regulatory Insurance Services, Inc. Defendant Smith has also filed his answer to AIG's complaint, which was amended on July 9, 2009 to add cross-claims against Tizzio and third-party claims against certain current and former AIG directors and officers, as well as INS Regulatory Insurance Services, Inc. On June 17, 2009, the Court issued an opinion granting the motions to dismiss filed by General Re, Marsh, ACE, and Susan Rivera. On July 13, 2009 and July 17, 2009, the Court entered final judgments in favor of PwC, General Re, Marsh, ACE, and Susan Rivera. Shortly thereafter, the shareholder plaintiffs filed separate appeals: one addressing the dismissal of PwC, and the other addressing the dismissals of ACE, General Re, and Marsh. The Delaware Supreme Court certified the question to the New York Court of Appeals as to whether, under certain circumstances, New York's *in pari delicto* doctrine would bar a derivative claim against a corporation's accountants for negligently failing to uncover a fraud by the corporation. On October 21, 2010 the New York Court of Appeals affirmatively answered the certified question.

On November 10, 2009, the Delaware Supreme Court granted AIG's motion to consolidate the appeal of its dismissal from the *In re Marsh Derivative Litigation* (see below, "*Derivative Action Delaware Chancery Court (Marsh)*") with the appeal of the dismissals of Marsh, General Re and ACE from the Delaware 2004/2005 Derivative Litigation, and subsequently issued an order notifying the parties that the appeal would be heard by the Court *en banc*.

On February 5, 2010, a stipulation of dismissal was filed with the court dismissing AIG's direct claims against Greenberg and Smith, pursuant to the AIG/Greenberg MOU. On February 10, 2010, the shareholder plaintiffs informed the Court that they did not object to the dismissal of AIG's direct claims against Greenberg and Smith, but stated that the dismissal did not apply to their claim against Greenberg and Smith, and further stated that they intended to seek attorneys' fees for having initiated the claims against Greenberg and Smith. The Starr Parties have taken the position that the AIG/Greenberg MOU releases the derivative claims being pursued by the shareholder plaintiffs; AIG has taken the opposite position.

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This action is also subject to the conditional settlement between the parties to the derivative actions, reached on August 25, 2010 (see *The New York 2004/2005 Derivative Litigation herein*).

Derivative Action Supreme Court of New York. On February 11, 2009, shareholder plaintiffs in the Delaware 2004/2005 Derivative Litigation filed a derivative complaint in the Supreme Court of New York against the individual defendants who moved to dismiss the complaint in the Delaware 2004/2005 Derivative Litigation on personal jurisdiction grounds. The defendants include current and former officers and employees of AIG, Marsh, and General Re; AIG is named as a nominal defendant. The complaint in this action contains similar allegations to those made in the Delaware 2004/2005 Derivative Litigation described above. Defendants filed motions to dismiss the complaint on May 1, 2009. The shareholder plaintiffs have reached an agreement staying discovery as well as any motions to dismiss the General Re and Marsh defendants pending final adjudication of any claims against those parties in the Delaware 2004/2005 Derivative Litigation. The individual defendants have also filed motions to dismiss.

This action is also subject to the conditional settlement between the parties to the derivative actions, reached on August 25, 2010 (see *The New York 2004/2005 Derivative Litigation herein*).

Derivative Action Delaware Chancery Court (Marsh). AIG was also named as a defendant in a derivative action in the Delaware Chancery Court brought by shareholders of Marsh. On July 10, 2008, shareholder plaintiffs filed a second consolidated amended complaint, which contains claims against AIG for aiding and abetting a breach of fiduciary duty and contribution and indemnification in connection with alleged bid-rigging and steering practices in the commercial insurance market that are the subject of the Multi-District Litigation described below. On November 10, 2008, AIG and certain defendants filed motions to dismiss the shareholder plaintiffs' portions of the complaint. On June 17, 2009, the Court dismissed the claims against AIG, Greenberg, and Zachary Carter with prejudice and denied the motions to dismiss filed by the remaining defendants. The shareholder plaintiffs filed their notice of appeal on October 1, 2009. AIG moved to consolidate the appeal with the appeal of the dismissal of ACE, General Re, and Marsh in the Delaware 2004/2005 Derivative Litigation. The shareholders of Marsh moved to stay this appeal pending the decision in the appeal of the dismissal of ACE, General Re, and Marsh in the Delaware 2004/2005 Derivative Litigation. On November 10, 2009, the Delaware Supreme Court granted AIG's motion to consolidate the appeals for the purposes of oral argument and denied the Marsh shareholders' motion to stay. On February 22, 2010, the Court issued an order notifying the parties that the appeal would be heard by the Court *en banc*.

On December 22, 2009, the Marsh shareholder plaintiffs filed a stipulation of settlement, resolving their claims against the Marsh defendants.

On October 21, 2010, the Delaware Supreme Court asked the parties to brief the New York Court of Appeals' answer to the certified question regarding the dismissal of PwC from the *Delaware 2004/2005 Derivative Litigation* on the grounds of *in pari delicto*. Oral argument on the Marsh shareholders' appeal against AIG is currently scheduled for December 15, 2010.

The Multi-District Litigation. Commencing in 2004, policyholders brought multiple federal antitrust and RICO class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in one or more broad conspiracies to allocate customers, steer business, and rig bids. These actions, including 24 complaints filed in different federal Courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district litigation and transferred to the United States District Court for the District of New Jersey (District of New Jersey) for coordinated pretrial proceedings. The consolidated actions have proceeded in that Court in two parallel actions, In re Insurance Brokerage Antitrust Litigation (the Commercial Complaint) and In re Employee Benefits Insurance Brokerage Antitrust Litigation (the Employee Benefits Complaint, and, together with the Commercial Complaint, the Multi-District Litigation).

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The plaintiffs in the Commercial Complaint are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants are alleged to have placed insurance coverage on the plaintiffs' behalf with a number of insurance companies named as defendants, including AIG subsidiaries. The Commercial Complaint also named various brokers and other insurers as defendants (three of which have since settled). The Commercial Complaint alleges that defendants engaged in a number of overlapping "broker-centered" conspiracies to allocate customers through the payment of contingent commissions to brokers and through purported "bid-rigging" practices. It also alleges that the insurer and broker defendants participated in a "global" conspiracy not to disclose to policyholders the payment of contingent commissions. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, RICO, and the antitrust laws of 48 states and the District of Columbia, and are liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys' fees as a result of the alleged RICO and Sherman Antitrust Act violations.

The plaintiffs in the Employee Benefits Complaint are a group of individual employees and corporate and municipal employers alleging claims on behalf of two separate nationwide purported classes: an employee class and an employer class that acquired insurance products from the defendants from January 1, 1998 to December 31, 2004. The Employee Benefits Complaint names AIG, as well as various other brokers and insurers, as defendants. The activities alleged in the Employee Benefits Complaint, with certain exceptions, track the allegations of customer allocation through steering and bid-rigging made in the Commercial Complaint.

The District Court, in connection with the Commercial and Employee Benefits Complaints, granted (without leave to amend) defendants' motions to dismiss the federal antitrust and RICO claims on August 31, 2007 and September 28, 2007, respectively. The Court declined to exercise supplemental jurisdiction over the state law claims in the Commercial Complaint and therefore dismissed it in its entirety. Plaintiffs appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit on October 10, 2007. On January 14, 2008, the District Court granted summary judgment to defendants on plaintiffs' ERISA claims in the Employee Benefits Complaint. On February 12, 2008, plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit with respect to the dismissal of the antitrust and RICO claims in the Employee Benefits Complaint.

On August 16, 2010, the Third Circuit issued a decision affirming in part and vacating in part the District Court's dismissal of the Commercial Complaint, and remanded the case for further proceedings consistent with the opinion. Specifically, the Third Circuit affirmed the dismissal of plaintiffs' broader antitrust and RICO claims, but the Court reversed the District Court's dismissal of alleged "Marsh-centered" antitrust and RICO claims based on allegations of bid-rigging involving excess casualty insurance. The Court remanded these Marsh-centered claims to the District Court for consideration as to whether plaintiffs had adequately pleaded them. Because the Third Circuit vacated in part the judgment dismissing the federal claims in the Commercial Complaint, the Third Circuit also vacated the District Court's dismissal of the state-law claims in the Commercial Complaint.

The Third Circuit affirmed the dismissal of the Employee Benefits Complaint in its entirety.

On October 1, 2010, defendants in the Commercial Complaint filed motions to dismiss the remaining remanded claims in the District Court of New Jersey.

A number of complaints making allegations similar to those in the Multi-District Litigation have been filed against AIG and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the Multi-District Litigation. These additional consolidated actions are still pending in the District of New Jersey, but are currently stayed. The AIG defendants have also sought to have state court actions making similar allegations stayed pending resolution of the Multi-District Litigation proceeding. These efforts have generally been successful, although four cases have proceeded; one each in Florida and New Jersey state courts that have settled, and one each in Texas and Kansas state courts have proceeded (although discovery is stayed in both actions). In the Texas action, plaintiff filed its Fourth Amended Petition on July 13, 2009. On August 14, 2009, defendants filed renewed

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special exceptions. In the Kansas case, defendants are appealing to the Kansas Supreme Court the trial court's denial of defendants' motion to dismiss.

Workers' Compensation Premium Reporting. On May 24, 2007, the National Council on Compensation Insurance (NCCI), on behalf of the participating members of the National Workers' Compensation Reinsurance Pool (the NWCRP), filed a lawsuit in the United States District Court for the Northern District of Illinois against AIG with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint alleged claims for violations of RICO, breach of contract, fraud and related state law claims arising out of AIG's alleged underpayment of these assessments between 1970 and the present and sought damages purportedly in excess of $1 billion. On August 6, 2007, the Court denied AIG's motion seeking to dismiss or stay the complaint or, in the alternative, to transfer to the Southern District of New York. On December 26, 2007, the Court denied AIG's motion to dismiss the complaint.

On March 17, 2008, AIG filed an amended answer, counterclaims and third-party claims against NCCI (in its capacity as attorney-in-fact for the NWCRP), the NWCRP, its board members, and certain of the other insurance companies that are members of the NWCRP alleging violations of RICO, as well as claims for conspiracy, fraud, and other state law claims. The counterclaim-defendants and third-party defendants filed motions to dismiss on June 9, 2008. On January 26, 2009, AIG filed a motion to dismiss all claims in the complaint for lack of subject-matter jurisdiction. On February 23, 2009, the Court issued a decision and order sustaining AIG's counterclaims and sustaining, in part, AIG's third-party claims. The Court also dismissed certain of AIG's third-party claims without prejudice.

On April 13, 2009, third-party defendant Liberty Mutual filed third-party counterclaims against AIG, certain of its subsidiaries, and former AIG executives. On August 23, 2009, the Court granted AIG's motion to dismiss the NCCI complaint for lack of standing. On September 25, 2009, AIG filed its First Amended Complaint, reasserting its RICO claims against certain insurance companies that both underreported their workers' compensation premium and served on the NWCRP Board, and repleading its fraud and other state law claims. Defendants filed a motion to dismiss the First Amended Complaint on October 30, 2009. On October 8, 2009, Liberty Mutual filed an amended counterclaim against AIG. The amended counterclaim is substantially similar to the complaint initially filed by NCCI, but also seeks damages related to non-NWCRP states, guaranty funds, and special assessments, in addition to asserting claims for other violations of state law. The amended counterclaim also removes as defendants the former AIG executives. On October 30, 2009, AIG filed a motion to dismiss the Liberty amended counterclaim.

On April 1, 2009, Safeco Insurance Company of America and Ohio Casualty Insurance Company filed a complaint in the United States District Court for the Northern District of Illinois, on behalf of a purported class of all NWCRP participant members, against AIG and certain of its subsidiaries with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint was styled as an "alternative complaint," should the Court grant AIG's motion to dismiss the NCCI lawsuit for lack of subject-matter jurisdiction. The allegations in the class action complaint are substantially similar to those filed by the NWCRP, but the complaint names former AIG executives as defendants and asserts a RICO claim against those executives. On August 28, 2009, the class action plaintiffs filed an amended complaint, removing the AIG executives as defendants. On October 30, 2009, AIG filed a motion to dismiss the amended complaint. On July 16, 2010, Safeco Insurance Company and Ohio Casualty Insurance Company filed their motion for class certification, which AIG opposed on October 8, 2010.

On July 1, 2010, the Court ruled on the pending motions to dismiss that were directed at all parties' claims. With respect to the underreporting NWCRP companies' and board members' motion to dismiss AIG's first amended complaint, the Court denied the motion to dismiss all counts except AIG's claim for unjust enrichment, which it found to be precluded by the surviving claims for breach of contract. With respect to NCCI and the NWCRP's motion to dismiss AIG's first amended complaint, the Court denied the NCCI and the NWCRP's motions to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current

account. With respect to AIG's motions to dismiss Liberty's counterclaims and the class action complaint, the Court denied both motions, except that it dismissed the class claim for promissory estoppel. On July 30, 2010 the NWCRP filed a motion for reconsideration of the Court's ruling denying its motion to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current account. The Court denied the NWCRP's motion for reconsideration on September 16, 2010.

Litigation Matters Relating to AIG's Insurance Operations

Caremark. AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action have intervened in the first-filed action, and the second-filed action has been dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. The complaints filed by the plaintiffs and the intervenor-plaintiffs request compensatory damages for the 1999 class in the amount of $3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression and have asserted that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement. AIG and its subsidiaries further assert that the current claims are barred by the statute of limitations and that plaintiffs' assertions that the statute was tolled cannot stand against the public disclosure of the excess coverage. The plaintiffs and intervenor-plaintiffs, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations.

On December 1, 2008, the intervenor-plaintiffs filed an Amended Complaint in Intervention that purports to bring claims against all defendants for deceit and conspiracy to deceive and a claim against AIG and its subsidiaries for aiding and abetting Caremark's alleged deception. The defendants have moved to dismiss the Amended Complaint, and, in the alternative, for a more definite statement.

Superior National. On December 30, 2004, an arbitration panel issued its ruling in connection with a 1998 workers' compensation quota share reinsurance agreement under which Superior National Insurance Company, among others, was reinsured by The United States Life Insurance Company in the City of New York (USLIFE), a subsidiary of AIG Life Holdings (U.S.). In its 2-1 ruling, the arbitration panel refused to rescind the contract as requested by USLIFE. Instead, the panel reformed the contract to reduce USLIFE's participation by ten percent. Further, the arbitration ruling established a second phase of arbitration for USLIFE to present its challenges to certain cessions to the contract. In the second phase the arbitration panel issued two awards resolving the challenges in favor of Superior National, now in liquidation. On January 4, 2010, the Ninth Circuit Court of Appeals affirmed the arbitration awards. On June 21, 2010, USLIFE satisfied the judgment of approximately $529 million. The judgment was for amounts billed through December 6, 2006, plus interest. USLIFE believes that the remaining reserves, after deduction for satisfaction of the judgment, as of September 30, 2010, should be adequate to fund unpaid claims.

(b) Commitments

Flight Equipment

At September 30, 2010, ILFC had committed to purchase 115 new aircraft deliverable from 2011 through 2019, at an estimated aggregate purchase price of $13.5 billion. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price.

Included in the 115 new aircraft are 74 Boeing 787 aircraft (B787s), with the first aircraft currently scheduled to be delivered in July 2012. ILFC is in discussion with Boeing related to revisions to the delivery schedule and

potential delay compensation and penalties for which ILFC may be eligible. ILFC has signed contracts for 31 of the 74 B787s on order. Under the terms of ILFC's B787 leases, the lessees may be entitled to share in any compensation which ILFC receives from Boeing for late delivery of the aircraft.

Other Commitments

On March 29, 2010, AIG's Compensation and Management Resources Committee approved AIG's 2010 Long Term Incentive Plan (2010 LTIP) and an additional component to AIG's 2009 Long Term Incentive Plan (2009 LTIP) for middle management employees throughout AIG. Under both plans, recipients were offered the opportunity to receive additional compensation in the form of cash and stock appreciation rights (SARs) if certain metrics are met. The ultimate value is contingent on the achievement of performance measures aligned to the participant's business unit over a two-year period and such value could range from zero to twice the target amount. Subsequent to the performance period, portions of the earned awards are subject to an additional time-vesting period of up to two years. The awards granted to participants based on their target amounts for the 2010 LTIP totaled approximately $380 million for the cash and SARs components, while the SARs component of the 2009 LTIP totaled approximately $90 million. AIG recognizes compensation expense over the vesting period for these plans.

In the normal course of business, AIG enters into commitments to invest in limited partnerships, private equities, hedge funds and mutual funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $5.7 billion at September 30, 2010.

AIG is obligated, subject to certain conditions, to make any payment that is not promptly paid with respect to the benefits accrued by certain employees of AIG and its subsidiaries under the SICO Plans (as discussed in (c) below under "Benefits Provided by Starr International Company, Inc.").

(c) Contingencies

Liability for unpaid claims and claims adjustment expense

Although AIG regularly reviews the adequacy of the established Liability for unpaid claims and claims adjustment expense, there can be no assurance that AIG's ultimate Liability for unpaid claims and claims adjustment expense will not develop adversely and materially exceed AIG's current Liability for unpaid claims and claims adjustment expense. Estimation of ultimate net claims, claims adjustment expenses and Liability for unpaid claims and claims adjustment expense is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation, in labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims.

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Benefits Provided by Starr International Company, Inc.

SICO has provided a series of two-year Deferred Compensation Profit Participation Plans (SICO Plans) to certain AIG employees. The SICO Plans were created in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset is AIG Common Stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and succeeding managements of all American International companies, including AIG.

None of the costs of the various benefits provided under the SICO Plans has been paid by AIG, although AIG has recorded a charge to reported earnings for the deferred compensation amounts paid to AIG employees by SICO, with an offsetting amount credited to Additional paid-in capital reflecting amounts considered to be contributed by SICO. The SICO Plans provide that shares currently owned by SICO are set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors currently may permit an early payout of units under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant's voluntary termination of employment with AIG prior to normal retirement age. Under the SICO Plans, SICO's Board of Directors may elect to pay a participant cash in lieu of shares of AIG Common Stock. Following notification from SICO to participants in the SICO Plans that it will settle specific future awards under the SICO Plans with shares rather than cash, AIG modified its accounting for the SICO Plans from variable to fixed measurement accounting. AIG gave effect to this change in settlement method beginning on December 9, 2005, the date of SICO's notice to participants in the SICO Plans.

Under the Starr International Company, Inc. Assurance Agreement, dated as of June 27, 2005 (SICO Assurance Agreement), AIG has agreed that, in the event that SICO does not promptly deliver the shares as required under the express terms of the SICO Plans to participants who were employees of AIG and its subsidiaries as of May 18, 2005, AIG will pay the benefits due under the SICO Plans. At September 30, 2010, the maximum number of shares of AIG Common Stock that AIG could be required to deliver under the SICO Assurance Agreement was 275,651.

(d) Guarantees

See Note 7 herein for commitments and guarantees associated with VIEs.

See Note 8 herein for disclosures on derivatives, including Capital Markets and MIP written credit default swaps and other derivatives with credit risk-related contingent features.

See Note 15 herein for additional disclosures on guarantees of outstanding debt.

Subsidiaries

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP arising from transactions entered into by such companies.

In connection with AIGFP's leasing business, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at September 30, 2010 was $1.3 billion. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is usually, but not always, partially offset by amounts payable under other instruments typically equal to the accreted value of a deposit held by AIGFP. In the event AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be

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required to pay. AIGFP selected transactions in which it agreed to provide this product only in circumstances where lessee bankruptcy is considered remote or, in the case of certain municipal lessees, not permitted under current law.

Asset Dispositions

General

AIG is subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to its asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation, or breaches of representations, warranties or covenants provided by AIG. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

AIG is unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, AIG believes that it is unlikely it will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Consolidated Balance Sheet. See Note 1 herein for additional information on sales of businesses and asset dispositions.

ALICO Sale

Pursuant to the terms of the ALICO stock purchase agreement, AIG has agreed to provide MetLife with certain indemnifications, the most significant of which include:

- Indemnification related to breaches of general representations and warranties with an aggregate deductible of $125 million and a maximum payout of $2.25 billion. The indemnification extends for 21 months after November 1, 2010.

- Indemnifications related to specific product, investment, litigation, and other matters that are excluded from the general representations and warranties indemnity. These indemnifications provide for various deductible amounts, which in certain cases are zero, and maximum exposures, which in certain cases are unlimited, and extend for various periods after the completion of the sale.

- Tax indemnifications related to insurance reserves that extend for taxable periods ending on or before December 31, 2013 and that are limited to an aggregate of $200 million, and certain other tax-related representations and warranties that extend to the expiration of the statute of limitations and are subject to an aggregate deductible of $50 million.

In connection with the above, AIG placed $3 billion of sales proceeds (consisting of MetLife securities received upon the completion of the sale) into an escrow arrangement that declines to zero over a 30-month period ending in April 2013, with claims submitted related to the indemnifications reducing the amount that can be released. Because the transaction had not closed at September 30, 2010, no liabilities related to these indemnifications were recorded in the Consolidated Balance Sheet.

AGF Sale

Under the terms of the announced sale of AGF, AIG and the purchaser have made certain customary representations, warranties and covenants in the purchase agreement. The transaction is expected to close by the end of 2010 subject to customary closing conditions, including receipt of necessary regulatory approvals. In connection with entering into the purchase agreement, AIG and AGF have agreed to amend their tax sharing agreement, which will terminate on the closing of the transaction, (i) to provide that, subject to the closing of the

transaction, the parties' payment obligation under the tax sharing agreement shall be limited to the payments required to be made by AIG to AGF with respect to the 2009 taxable year in accordance with the tax sharing agreement, and (ii) to include the terms of the promissory note to be issued by AIG in satisfaction of its 2009 taxable year payment obligation to AGF.

10. Total Equity and Earnings (Loss) Per Share

Preferred Stock

During the first nine months of 2010, AIG drew approximately $2.2 billion under the Department of the Treasury Commitment and, as a result, the liquidation preference of the Series F Preferred Stock increased to $7.543 billion in the aggregate.

As a result of AIG's failure to declare and pay dividends on the Series E Preferred Stock and the Series F Preferred Stock for four quarterly dividend payment periods, the United States Department of the Treasury, as the sole holder of the Series E Preferred Stock and the Series F Preferred Stock, exercised its right and elected Ronald A. Rittenmeyer and Donald H. Layton (the Preferred Directors) to the Board of Directors of AIG (the Board) by written consent effective April 1, 2010. The Preferred Directors were re-elected by the United States Department of the Treasury, as the sole holder of the Series E Preferred Stock and the Series F Preferred Stock, at AIG's 2010 Annual Meeting of Shareholders and will hold office as Preferred Directors until the next annual meeting (or special meeting called for the purpose of electing directors) or until all the dividends payable on all outstanding shares of the Series E Preferred Stock and the Series F Preferred Stock have been declared and paid in full for four consecutive quarters.

The Series C Preferred Stock, the Series E Preferred Stock and the Series F Preferred Stock are expected to be exchanged for AIG Common Stock and retired in connection with the Recapitalization. See Note 1 herein.

See Note 16 of Notes to Consolidated Financial Statements of AIG's 2009 Financial Statements for a discussion of the terms of AIG's outstanding Preferred Stock.

Equity Units

In May 2008, AIG sold 78,400,000 million equity units (the Equity Units) at a price per unit of $75 for gross proceeds of $5.88 billion. The Equity Units consist of an ownership interest in AIG junior subordinated debentures and a stock purchase contract obligating the holder of an equity unit to purchase, and obligating AIG to sell, a variable number of shares of AIG Common Stock in 2011. The junior subordinated debentures are recorded as Other long-term debt in the Consolidated Balance Sheet. The principal amount owed by AIG on the subordinated debentures is equal to the amount owed to AIG under the related stock purchase contract.

On October 8, 2010, AIG commenced an offer to exchange up to 74,480,000 of its Equity Units for consideration per Equity Unit equal to 0.09867 shares of AIG Common Stock plus $3.2702 in cash. The stock and cash received will be the result of netting payments from two separate transactions, a repurchase of the subordinated debentures and a cancellation of the stock purchase contracts.

The consideration offered per Equity Unit is the same number of shares and the same cumulative amount of cash per Equity Unit that a holder would receive if the holder did not tender into the exchange offer and instead held Equity Units and settled the respective stock purchase contract at its final stock purchase date with the proceeds from subordinated debentures.

The 74,480,000 Equity Units AIG seeks to acquire represent approximately 95 percent of the outstanding Equity Units. If more than 95 percent of the holders of the outstanding Equity Units accept the exchange offer, the Equity Units accepted in the exchange offer will be prorated as necessary to remain within this limit.

The exchange offer expires on November 10, 2010, unless extended or earlier terminated by AIG.

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In addition, debentures included in the Equity Units not exchanged in the exchange offer will continue to be subject to remarketing. Depending on the amount of Equity Units that are accepted for exchange in the exchange offer, the trading market for the Equity Units that remain outstanding after the exchange offer is expected to be more limited. The 74,480,000 Equity Units, which is the maximum number of Equity Units that could be exchanged in the exchange offer, represent approximately 95 percent of the total outstanding Equity Units. AIG may, to the extent permitted by applicable law, after the settlement date of the exchange offer, purchase Equity Units. Following completion of the exchange offer, AIG may also repurchase Debentures in a remarketing, in the open market, in privately negotiated transactions or otherwise.

No assurance can be given that AIG will complete the exchange offer or that the terms of the exchange offer will not be changed.

See Note 16 to the Consolidated Financial Statements of AIG's 2009 Financial Statements for a discussion of the terms of AIG's outstanding Equity Units.

Accumulated Other Comprehensive Income (Loss)

A rollforward of Accumulated other comprehensive income (loss) is as follows:

Nine Months Ended September 30, 2010 *(in millions)*	**Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Taken**	**Unrealized Appreciation (Depreciation) of All Other Investments**	**Foreign Currency Translation Adjustments**	**Net Derivative Gains (losses) Arising from Cash Flow Hedging Activities**	**Retirement Plan Liabilities Adjustment**	**Total**
Balance, beginning of year, net of tax	$ (1,810)	$ 7,145	$ 1,630	$ (128)	$ (1,144)	$ 5,693
Unrealized appreciation of investments	2,011	18,597	-	-	-	20,608
Net changes in foreign currency translation adjustments	-	-	(266)	-	-	(266)
Net gains on cash flow hedges	-	-	-	83	-	83
Net actuarial loss	-	-	-	-	(414)	(414)
Prior service credit	-	-	-	-	3	3
Deferred tax asset (liability)	(1,012)	(6,441)	116	(20)	101	(7,256)
Total other comprehensive income (loss)	999	12,156	(150)	63	(310)	12,758
Cumulative effect of change in accounting principle, net of tax	(76)	(268)	-	-	-	(344)
Noncontrolling interests	4	110	(7)	-	-	107

Balance, end of period, net of tax	$ (891)	$ 18,923	$ 1,487	$ (65)	$ (1,454)	$ 18,000

Noncontrolling interests

In connection with the ongoing execution of its orderly asset disposition plan, as well as plans to timely repay the FRBNY Credit Facility, on November 30, 2009, AIG transferred two of its wholly owned businesses, AIA and ALICO, to two newly-created special purpose vehicles (SPVs) in exchange for all the common and preferred interests of those SPVs. On December 1, 2009, AIG transferred the preferred interests in the SPVs to the FRBNY in consideration for a $25 billion reduction of the outstanding loan balance and of the maximum amount of credit available under the FRBNY Credit Facility and amended the terms of the FRBNY Credit Facility.

The common interests, which were retained by AIG, entitle AIG to 100 percent of the voting power of the SPVs. The voting power allows AIG to elect the boards of managers of the SPVs, who oversee the management

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and operation of the SPVs. Primarily due to the substantive participation rights of the preferred interests, the SPVs were determined to be variable interest entities. As the primary beneficiary of the SPVs, AIG consolidates the SPVs.

The preferred interests are redeemable at the option of AIG and are transferable at the FRBNY's discretion. If the FRBNY obtains control of the SPVs, through a default by AIG under the FRBNY Credit Agreement or otherwise, the agreements governing the transactions explicitly prohibit redemption of the preferred interests. In the event the board of managers of either SPV initiates a public offering, liquidation or winding up or a voluntary sale of the SPV, the proceeds must be distributed to the preferred interests until the preferred interests' redemption value has been paid. The redemption value of the preferred interests is the liquidation preference, which includes any undistributed preferred returns through the redemption date, and the amount of distributions that the preferred interests would receive in the event of a 100 percent distribution to all the common and preferred interest holders at the redemption date.

In 2010, AIG recorded a net decrease due to deconsolidation of noncontrolling interests primarily related to the sale of AIG's investment advisory and third party asset management business. See Note 3 herein for additional information. In 2009, AIG recorded a net decrease due to the deconsolidation of Transatlantic following the sale by AIG of 29.9 million shares of Transatlantic common stock as well as the deconsolidation of certain investment entities within the Institutional Asset Management business.

Upon the closing of the Recapitalization, the SPV non-controlling interests will no longer be considered permanent equity on AIG's Consolidated Balance Sheet, and will be classified as redeemable non-controlling interests in partially-owned consolidated subsidiaries.

See Note 16 of Notes to Consolidated Financial Statements of AIG's 2009 Financial Statements for further discussion of the terms of the junior and senior non-voting, callable preferred interests.

Earnings (Loss) Per Share (EPS)

Basic and diluted earnings (loss) per share are based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. Diluted earnings per share is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, adjusted to reflect all stock dividends and stock splits. Basic earnings (loss) per share is not affected by outstanding stock purchase contracts. Diluted earnings per share is determined considering the potential dilution from outstanding stock purchase contracts using the treasury stock method and will not be affected by outstanding stock purchase contracts until the applicable market value per share exceeds $912.

In connection with the issuance of the Series C Preferred Stock, AIG began applying the two-class method for calculating EPS. The two-class method is an earnings allocation method for computing EPS when a company's capital structure includes either two or more classes of common stock or common stock and participating securities. This method determines EPS based on dividends declared on common stock and participating securities (i.e., distributed earnings) as well as participation rights of participating securities in any undistributed earnings.

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The following table presents the computation of basic and diluted EPS:

(dollars in millions, except per share data)	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Numerator for EPS:				
Income (loss) from continuing operations	**$ (47)**	$ (109)	**$ 2,754**	$ (4,314)
Net income (loss) from continuing operations attributable to noncontrolling interests:				
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	**388**	-	**1,415**	-
Other	**104**	(496)	**243**	(1,271)
Total net income (loss) from continuing operations attributable to noncontrolling interests	**492**	(496)	**1,658**	(1,271)
Net income (loss) attributable to AIG from continuing operations	**(539)**	387	**1,096**	(3,043)
Income (loss) from discontinued operations	**$ (1,844)**	$ 94	**$ (4,329)**	$ 1,011
Income from discontinued operations attributable to noncontrolling interests	**12**	26	**35**	44
Net income (loss) attributable to AIG from discontinued operations	**(1,856)**	68	**(4,364)**	967
Cumulative dividends on AIG Series D Fixed Rate Cumulative Perpetual Preferred Stock, par value $5.00 per share	**-**	-	**-**	(1,204)
Deemed dividend to AIG Series D Preferred Stock exchanged for the Series E Preferred Stock	**-**	-	**-**	(91)
(Income) loss allocated to the Series C Preferred Stock continuing operations	**-**	(309)	**(874)**	-
Net income (loss) attributable to AIG from continuing operations, applicable to common stock for EPS	**(539)**	78	**222**	(4,338)
(Income) loss allocated to the Series C Preferred Stock discontinued operations	**-**	(54)	**3,481**	-
Net income (loss) attributable to AIG from discontinued operations, applicable to common stock for EPS	**$ (1,856)**	$ 14	**$ (883)**	$ 967
Denominator for EPS:				
Weighted average shares outstanding basic	**135,879,125**	135,293,841	**135,788,053**	135,276,345
Dilutive shares*	**-**	162,531	**67,275**	-
Weighted average shares outstanding diluted	**135,879,125**	135,456,372	**135,855,328**	135,276,345
EPS attributable to AIG:				

Basic:				
Income (loss) from continuing operations	**$ (3.97)**	$ 0.58	**$ 1.63**	$ (32.06)
Income (loss) from discontinued operations	**$ (13.65)**	$ 0.10	**$ (6.51)**	$ 7.14
Diluted:				
Income (loss) from continuing operations	**$ (3.97)**	$ 0.58	**$ 1.63**	$ (32.06)
Income (loss) from discontinued operations	**$ (13.65)**	$ 0.10	**$ (6.51)**	$ 7.14

*

Diluted shares are calculated using the treasury stock method and include dilutive shares from share-based employee compensation plans, and the warrant issued to the Department of the Treasury on April 17, 2009 to purchase up to 150 shares of AIG Common Stock (Series F Warrant). The number of shares excluded from diluted shares outstanding were 12 million for both the three-month and nine-month periods ended September 30, 2010 and 2009, because the effect would have been anti-dilutive.

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11. Restructuring

Since September 2008, AIG has been working to execute an orderly disposition plan of some of its businesses and assets, protect and enhance the value of its key businesses, and position itself for the future. AIG continually reassesses this plan to maximize value while maintaining flexibility in its liquidity and capital. Successful execution of the restructuring plan involves significant separation activities. Major restructuring activities include the separation of shared services, corporate functions, infrastructure and assets among business units.

In connection with its restructuring and separation activities, AIG has incurred significant expenses, including legal, banking, accounting, consulting and other professional fees. In addition, AIG is contractually obligated to reimburse or advance certain professional fees and other expenses incurred by the FRBNY and the trustees of the Trust.

Based on AIG's announced plans, AIG has made estimates of these expenses, although for some restructuring and separation activities estimates cannot be reasonably made due to the evolving nature of the plans and the uncertain timing of the transactions involved. Future reimbursement or advancement payments to the FRBNY and the trustees cannot reasonably be estimated by AIG. Even for those expenses that have been estimated, actual expenses will vary depending on the identity of the ultimate purchasers of the divested entities or counterparties to transactions, the transactions and activities that ultimately are consummated or undertaken, and the ultimate time period over which these activities occur.

Restructuring and separation expenses that have been cumulatively incurred or can be reasonably expected to be incurred at September 30, 2010, are set forth in the table below, and exclude expenses that could not be reasonably estimated at September 30, 2010, as well as expenses (principally professional fees) that are expected to be capitalized. With respect to the FRBNY and the trustees of the Trust, these amounts include only actual reimbursement and advancement payments made through September 30, 2010.

Restructuring expenses and related asset impairment and other expenses by reportable segment consisted of the following:

(in millions)	General Insurance	Domestic Life Insurance & Retirement Services	Foreign Life Insurance & Retirement Services	Financial Services[a]	Other[b]	Total
Three Months Ended September 30, 2010						
Restructuring expenses	**$ -**	**$ (1)**	**$ 31**	**$ 9**	**$ 119**	**$ 158**
Separation expenses	**(5)**	**2**	**3**	**(1)**	**2**	**1**
Total	**$ (5)**	**$ 1**	**$ 34**	**$ 8**	**$ 121**	**$ 159**
Three Months Ended September 30, 2009						
Restructuring expenses	$ -	$ 1	$ 2	$ 50	$ 85	$ 138

Separation expenses		60		8		22		3		23		116
Total	$	60	$	9	$	24	$	53	$	108	$	254
Nine Months Ended September 30, 2010												
Restructuring expenses	**$**	**-**	**$**	**(1)**	**$**	**31**	**$**	**21**	**$**	**266**	**$**	**317**
Separation expenses		**1**		**9**		**21**		**(11)**		**2**		**22**
Total	**$**	**1**	**$**	**8**	**$**	**52**	**$**	**10**	**$**	**268**	**$**	**339**
Nine Months Ended September 30, 2009												
Restructuring expenses	$	1	$	21	$	9	$	116	$	390	$	537
Separation expenses		133		44		39		83		72		371
Total	$	134	$	65	$	48	$	199	$	462	$	908
Cumulative amounts incurred since inception of restructuring plan	$	268	$	159	$	150	$	564	$	1,118	$	2,259
Total amounts expected to be incurred[(c)]	$	272	$	170	$	172	$	641	$	1,257	$	2,512

(a) *Benefit in 2010 relates to returned AIGFP retention awards.*

(b) *Primarily includes professional fees related to (i) disposition activities and (ii) the Recapitalization.*

(c) *Includes cumulative amounts incurred and future amounts to be incurred that can be reasonably estimated at September 30, 2010.*

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A rollforward of the restructuring liability, reported in Other liabilities on AIG's Consolidated Balance Sheet, for the nine months ended September 30, 2010 and the cumulative amounts incurred since inception of the restructuring plan, and the total amounts expected to be incurred are summarized as follows:

Nine Months Ended September 30, 2010 *(in millions)*	Severance Expenses	Contract Termination Expenses	Asset Write-Downs	Other Exit Expenses[(a)]	Subtotal Restructuring Expenses	Separation Expenses	Total Restructuring and Separation Expenses
Balance, beginning of year	$ 125	$ 20	$ -	$ 81	$ 226	$ 360	$ 586
Additional charges	(7)	7	6	192	198	34	232
Cash payments	(87)	(11)	-	(265)	(363)	(277)	(640)
Non-cash items[(b)]	(3)	-	(7)	-	(10)	(14)	(24)
Changes in estimates	2	(1)	1	120	122	(12)	110
Activity of discontinued operations	-	(5)	-	10	5	(67)	(62)
Reclassified to Liabilities of businesses held for sale	-	(3)	-	(17)	(20)	(7)	(27)
Balance, end of period	$ 30	$ 7	$ -	$ 121	$ 158	$ 17	$ 175
Cumulative amounts incurred since inception of restructuring plan	$ 235	$ 69	$ 88	$ 872	$ 1,264	$ 998	$ 2,262
Total amounts expected to be incurred[(c)]	$ 236	$ 100	$ 88	$ 1,054	$ 1,478	$ 1,034	$ 2,512

(a) *Primarily includes professional fees related to (i) disposition activities, (ii) the Recapitalization and (iii) AIGFP unwinding activities.*

(b) *Primarily represents asset impairment charges, foreign currency translation and reclassification adjustments.*

(c) *Includes cumulative amounts incurred and future amounts to be incurred that can be reasonably estimated at September 30, 2010.*

12. Ownership

(a) According to the Schedule 13D as amended through November 1, 2010 filed by Fairholme Capital Management, L.L.C. (Fairholme), Mr. Bruce Berkowitz and Fairholme Funds, Inc. (Fairholme Funds), Fairholme and Mr. Berkowitz each may be deemed to beneficially own 38,258,648 shares of AIG Common Stock and Fairholme Funds may be deemed to beneficially own 34,426,276 shares of AIG Common Stock. Based on the shares of AIG Common Stock outstanding at October 29, 2010 as adjusted to reflect the maximum number of shares of AIG Common Stock that could be issued upon the exchange of the Equity Units that each may be deemed to beneficially own, these ownership interests would represent approximately 27.7 percent of AIG Common Stock for Fairholme and Mr. Berkowitz and 25.0 percent of AIG Common Stock for Fairholme Funds.

According to the Schedule 13D as amended through March 19, 2010, filed by Maurice R. Greenberg, Edward E. Matthews, Starr International Company, Inc. (Starr International), C.V. Starr & Co. (CV Starr), Inc. and Universal Foundation, Inc. (Universal Foundation) (collectively, the Starr Group), the Starr Group could be deemed to beneficially own 14,105,606 shares of AIG Common Stock at that date. Based on the shares of

AIG Common Stock outstanding at October 29, 2010, this ownership would represent approximately 10.4 percent of the outstanding shares of AIG Common Stock. Although these reporting persons may have made filings under Section 16 of the Exchange Act, reporting sales of shares of AIG Common Stock, no amendment to the Schedule 13D has been filed to report a change in ownership subsequent to March 19, 2010.

(b) For discussion of the Series C Preferred Stock and the ownership by the Trust, see Note 16 of Notes to Consolidated Financial Statements of AIG's 2009 Financial Statements.

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13. Employee Benefits

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

	Pensions			Postretirement		
(in millions)	Non U.S. Plans	U.S. Plans	Total	Non U.S. Plans	U.S. Plans	Total
Three Months Ended September 30, 2010						
Components of net periodic benefit cost:						
Service cost	**$ 38**	**$ 35**	**$ 73**	**$ 2**	**$ 2**	**$ 4**
Interest cost	**15**	**54**	**69**	**1**	**4**	**5**
Expected return on assets	**(9)**	**(64)**	**(73)**	**-**	**-**	**-**
Amortization of prior service credit	**(2)**	**-**	**(2)**	**-**	**-**	**-**
Amortization of net loss	**11**	**11**	**22**	**-**	**-**	**-**
Other	**1**	**-**	**1**	**-**	**-**	**-**
Net periodic benefit cost	**$ 54**	**$ 36**	**$ 90**	**$ 3**	**$ 6**	**$ 9**
Amount associated with discontinued operations	**$ 32**	**$ 3**	**$ 35**	**$ 1**	**$ -**	**$ 1**
Three Months Ended September 30, 2009						
Components of net periodic benefit cost:						
Service cost	$ 28	$ 30	$ 58	$ 3	$ 2	$ 5
Interest cost	15	61	76	-	5	5
Expected return on assets	(8)	(56)	(64)	-	-	-
Amortization of prior service credit	(2)	(1)	(3)	-	-	-
Amortization of net loss	9	29	38	1	(1)	-
Other	(1)	3	2	-	2	2
Net periodic benefit cost	$ 41	$ 66	$ 107	$ 4	$ 8	$ 12
Amount associated with discontinued operations	$ 28	$ 5	$ 33	$ 1	$ -	$ 1
Nine Months Ended September 30, 2010						
Components of net periodic benefit cost:						
Service cost	**$ 101**	**$ 106**	**$ 207**	**$ 6**	**$ 6**	**$ 12**
Interest cost	**44**	**162**	**206**	**3**	**12**	**15**
Expected return on assets	**(23)**	**(192)**	**(215)**	**-**	**-**	**-**
Amortization of prior service credit	**(7)**	**1**	**(6)**	**-**	**-**	**-**
Amortization of net loss	**34**	**35**	**69**	**-**	**-**	**-**
Other	**2**	**-**	**2**	**-**	**-**	**-**
Net periodic benefit cost	**$ 151**	**$ 112**	**$ 263**	**$ 9**	**$ 18**	**$ 27**

Amount associated with discontinued operations	**$ 96**	**$ 8**	**$ 104**	**$ 2**	**$ 1**	**$ 3**
Nine Months Ended September 30, 2009						
Components of net periodic benefit cost:						
Service cost	$ 88	$ 110	$ 198	$ 8	$ 7	$ 15
Interest cost	45	170	215	2	13	15
Expected return on assets	(24)	(170)	(194)	-	-	-
Amortization of prior service credit	(8)	(2)	(10)	-	-	-
Amortization of net loss	30	76	106	1	-	1
Other	7	3	10	-	(1)	(1)
Net periodic benefit cost	$ 138	$ 187	$ 325	$ 11	$ 19	$ 30
Amount associated with discontinued operations	$ 88	$ 15	$ 103	$ 2	$ 1	$ 3

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At December 31, 2009, AIG's U.S. pension and postretirement plans were underfunded by $325 million and $274 million, respectively. Those amounts included $15 million and $5 million, respectively, for pension and postretirement plans related to businesses designated as held for sale at September 30, 2010.

At December 31, 2009, AIG's non-U.S. pension and postretirement plans were underfunded by $1.6 billion and $106 million, respectively. Those amounts included $1 billion and $25 million, respectively, for pension and postretirement plans related to businesses designated as held for sale at September 30, 2010.

As a result of the Fuji acquisition, AIG assumed the obligations related to the Fuji plans. As of September 30, 2010, Fuji's aggregate projected benefit obligation and plan assets were $246 million and $306 million, respectively. See Note 4 herein for more information on the Fuji acquisition.

For the nine-month period ended September 30, 2010, AIG contributed $129 million to its U.S. and non-U.S. pension plans and expects to contribute an additional $5 million for the remainder of 2010. These estimates are subject to change since contribution decisions are affected by various factors, including AIG's liquidity, asset dispositions, market performance and management discretion.

Curtailment and Remeasurement of Certain Plans

In connection with asset sales in 2010 and the designation of AGF as held for sale at September 30, 2010, AIG remeasured certain of its domestic pension and postretirement plans. The assumptions used in the remeasurement of the affected plans were the same as those disclosed at December 31, 2009, except for the discount rates. The discount rate for the largest plan, the AIG U.S. Retirement Plan, is derived from the unadjusted Citigroup Pension Discount Curve. The resulting discount rate declined from six percent at December 31, 2009 to five percent at September 30, 2010, and consequently in the third quarter of 2010, AIG recorded a curtailment pre-tax loss of $1 million, a $535 million increase in Other liabilities, and a decrease in pre-tax Accumulated other comprehensive income of $534 million.

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14. Income Taxes

Effective Tax Rates and Interim Period Tax Assumptions

AIG's actual income tax (benefit) expense differs from the statutory U.S. federal amount computed by applying the federal income tax rate due to the following:

	Three Months Ended September 30, 2010			Nine Months Ended September 30, 2010		
(dollars in millions)	Pre-Tax Income (Loss)	Amount	Percent of Pre-tax Income (Loss)	Pre-Tax Income (Loss)	Amount	Percent of Pre-tax Income (Loss)
U.S. federal income tax at statutory rate	$ (2,076)	$ (727)	35.0%	$ (1,498)	$ (524)	35.0%
Adjustments:						
Tax exempt interest		(143)	6.9		(449)	30.0
Investment in subsidiaries, partnerships and variable interest entity		25	(1.2)		(20)	1.3
Effect of foreign operations		41	(2.0)		416	(27.8)
Bargain purchase gain		-	-		(116)	7.7
State income taxes		54	(2.6)		(69)	4.6
Other		561	(27.0)		299	(19.9)
Effect of discontinued operations		63	(3.0)		(381)	25.4
Effect of discontinued operations goodwill		344	(16.6)		1,268	(84.6)
State tax valuation allowance continuing operations		(99)	4.8		96	(6.4)
Valuation allowance:						
Continuing operations		(118)	5.6		(443)	29.6
Discontinued operations		(186)	9.0		-	-
Total income tax expense (benefit)	(2,076)	(185)	8.9	(1,498)	77	(5.1)
Amount included in discontinued operations	(2,498)	(654)	26.2	(5,296)	(967)	18.3
Tax expense from continuing operations	$ 422	$ 469	111.1%	$ 3,798	$ 1,044	27.5%

AIG's income tax expense (benefit) from continuing operations for the three and nine months ended September 30, 2010 and 2009 is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2010**	**2009**	**2010**	**2009**
Current tax expense (benefit)	**$ (420)**	$ 936	**$ 618**	$ 2,335
Deferred tax expense (benefit)	**889**	(1,344)	**426**	(3,845)
Total tax expense (benefit) attributable to continuing operations	**$ 469**	$ (408)	**$ 1,044**	$ (1,510)

AIG is unable to estimate the annual effective tax rate for 2010 due to the significant variations in the relationship between income tax expense and pre-tax accounting income or loss; consequently, the actual effective tax rate for the interim periods is being utilized.

For the three- and nine-month periods ended September 30, 2010, the effective tax rates on pre-tax income from continuing operations were 111.1 percent and 27.5 percent, respectively. The effective tax rate for the three-month period ended September 30, 2010 attributable to continuing operations was primarily related to the effect of foreign operations of $41 million and other permanent items of $561 million, partially offset by a net reduction of the valuation allowance of $118 million and tax exempt interest of $143 million. The other permanent items of

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$561 million were primarily attributable to $220 million of nondeductible losses, realized gains resulting from transfers of subsidiaries of $78 million, and uncertain tax positions of $76 million. The effective tax rate for the nine-month period ended September 30, 2010 attributable to continuing operations was primarily related to the effects of tax exempt interest income of $449 million, the excess amount of the Fuji bargain purchase gain for financial reporting over the tax basis which is essentially permanent in duration of $116 million, and a reduction of $443 million in the valuation allowance, partially offset by the effect of foreign operations of $416 million, and other permanent items of $299 million, which were primarily attributable to the nondeductible losses and realized gains resulting from transfers of subsidiaries discussed above.

For the three- and nine-month periods ended September 30, 2009, the effective tax rates on pre-tax income (loss) from continuing operations were 78.9 percent and 25.9 percent, respectively. The tax benefit reflected for the three-month period ended September 30, 2009 attributable to continuing operations was primarily related to changes in the estimated U.S. tax liability with respect to the potential sale of subsidiaries of $931 million, partially offset by an increase of $108 million in the reserve for uncertain tax positions, a net increase in the valuation allowance of $405 million, and the effect of foreign operations of $122 million. The tax benefit reflected in the effective tax rate attributable to continuing operations for the nine-month period ended September 30, 2009 was primarily related to changes in the estimated U.S. tax liability with respect to the potential sale of subsidiaries of $740 million and tax exempt interest of $521 million, partially offset by an increase of $514 million in the reserve for uncertain tax positions, an increase in valuation allowance of $336 million and the effects of variable interest entity losses of $371 million.

The following table provides a rollforward of the net deferred tax asset from December 31, 2009 to September 30, 2010:

(in millions)	Net Deferred Tax Asset Before Valuation Allowance	Valuation Allowance	Net Deferred Tax Asset
Net deferred tax asset at December 31, 2009	$ 29,589	$ (23,705)	$ 5,884
Benefit (provision) continuing operations	(773)	347	(426)
Benefit (provision) discontinued operations	1,087	(15)	1,072
Deferred taxes on components of shareholders' equity	(8,125)	408	(7,717)
Deferred taxes of acquired entities	621	(693)	(72)
Deferred taxes of deconsolidated entities	(108)	2	(106)
Net deferred tax liabilities reclassified as held for sale	1,373	1,251	2,624
Net deferred tax asset at September 30, 2010	$ 23,664	$ (22,405)	$ 1,259

Assessment of Deferred Tax Asset Valuation Allowances

AIG evaluates the recoverability of the deferred tax asset and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50 percent). Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate.

When assessing the realization of its deferred tax asset at September 30, 2010, AIG considered all available evidence, including:

the nature, frequency, and severity of cumulative financial reporting losses in recent years;

certain transactions, including the recognition of the gains on asset sales, and the initial public offering of AIA;

the carryforward periods for the net operating and capital loss and foreign tax credit carryforwards; and

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tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

Estimates of future gains generated from specific transactions and tax planning strategies discussed below could change in the near term, perhaps materially, which may require AIG to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to AIG's consolidated financial condition or its results of operations for an individual reporting period.

When estimating the fair values of the subsidiaries to be divested, AIG considered, among other information, valuations prepared for various purposes. During the first quarter of 2010, AIG increased its estimate of the AIA and ALICO expected divestiture proceeds following an updated assessment of the range of valuation estimates that considered, among other factors, the expected proceeds from the sales to Prudential plc and MetLife announced in that quarter, which gave rise to a $910 million reduction in the valuation allowance. During the third quarter, based on the expectation of lower proceeds from the sale of AIA ordinary shares, the realization amount of the deferred tax assets was reduced by increasing valuation allowance of $1.3 billion.

At September 30, 2010 and December 31, 2009, AIG's U.S. consolidated income tax group had net deferred tax assets after valuation allowances of $3.8 billion and $8.6 billion, respectively. Realization of AIG's net deferred tax asset depends upon its ability to generate gains on asset sales and the initial public offering of AIA, the sale of ALICO and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset. However, the realization of the net deferred tax asset does not depend on projected future operating income of the U.S. consolidated income tax group. At September 30, 2010 and December 31, 2009, AIG's U.S. consolidated income tax group had deferred tax asset valuation allowances of $19.9 billion and $20.4 billion, respectively.

For the nine months ended September 30, 2010, AIG recorded a reduction in the U.S. consolidated income tax group deferred tax asset valuation allowance of $1.2 billion primarily attributable to a reduction in the deferred tax asset valuation allowance of $175 million related to an increase in the expected gains from the divestiture of ALICO, a reduction in the deferred tax asset valuation allowance of $4.5 billion related to the total other comprehensive income movement primarily attributable to unrealized appreciation in the available for sale securities portfolio, an offsetting increase in the valuation allowance of $525 million related to lower proceeds from the initial public offering of AIA, an increase in the deferred tax asset valuation allowance of $1.2 billion related to the estimated U.S. tax liability with respect to the investment in subsidiaries associated with goodwill impairment charges, an increase in the deferred tax valuation allowance of $660 million attributable to the estimated pre-tax loss on the planned disposition of AGF, and an increase in the deferred tax asset valuation allowance of $589 million related to a reduction in tax planning strategies.

The significant unrealized appreciation in the available for sale securities portfolio partially offset by activity in other comprehensive income reduced the net deferred tax asset before valuation allowances, allowing a reduction of $4.5 billion of valuation allowance.

During the nine months ended September 30, 2010, AIG changed its planned securitization of an insurance portfolio because it is pursuing more attractive opportunities to provide liquidity. This planned securitization previously supported $589 million of the U.S. consolidated income tax group's deferred tax assets.

For the nine months ended September 30, 2010, $386 million of the reduction in valuation allowance was allocated to continuing operations and $791 million was allocated to Accumulated other comprehensive income. This allocation was based on the primacy of continuing operations, which allows for a net reduction in valuation allowance to be attributed to continuing operations to the extent of the related deferred tax expense attributable to continuing operations. The reduction is partially offset by $589 million of change in the planned securitization and $525 million related to an expectation of lower proceeds from the AIA initial public offering. The remaining reduction in valuation allowance was allocated to accumulated other comprehensive income.

For the three months ended September 30, 2010, $141 million of the reduction in valuation allowance was allocated to continuing operations and $862 million was allocated to Accumulated other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

At September 30, 2010 and December 31, 2009, AIG had net deferred tax liabilities of $2.6 billion and $2.7 billion, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns.

At September 30, 2010 and December 31, 2009, AIG had deferred tax asset valuation allowances of $2.6 billion and $3.3 billion, respectively, related to foreign subsidiaries, state and local tax jurisdictions, and certain domestic subsidiaries that file separate tax returns. The change is primarily due to a deferred tax asset valuation allowance of $1.3 billion reclassified to Assets held for sale partially offset by an additional deferred tax asset valuation allowance of $693 million associated with the purchase of additional shares of Fuji, recorded through purchase accounting.

At September 30, 2010 and December 31, 2009, AIG had deferred tax assets related to stock compensation of $233 million and $178 million, respectively. Due to AIG's current stock price, these deferred tax assets may not be realizable in the future. The accounting guidance for share based payments precludes AIG from recognizing an impairment charge on this asset until the related stock awards are exercised, vest or expire. Any charge associated with the deferred tax asset, net of valuation allowance, is reported in Additional paid-in capital until the pool of previously recognized tax benefits recorded in Additional paid-in capital is reduced to zero. Income tax expense would be recognized for any additional charge. AIG has a full valuation allowance against its deferred tax asset related to stock based compensation as of September 30, 2010. Any reversal of the deferred tax asset due to awards that have been exercised, vested or expired is offset by a reversing valuation allowance with no net impact to the AIG's financial statements. Accordingly, no amount is recorded to Additional paid-in capital for the shortfall of the current-year share-based compensation deductions, and thus there is no decrease to the pool of previously unrecognized tax benefits recorded in Additional paid-in capital. At both September 30, 2010 and December 31, 2009, the pool of previously recognized tax benefits recorded in Additional paid-in capital was $142.6 million.

Accounting for Uncertainty in Income Taxes

At September 30, 2010 and December 31, 2009, AIG's unrecognized tax benefits, excluding interest and penalties, were $5.3 billion and $4.8 billion, respectively. At both September 30, 2010 and December 31, 2009, AIG's unrecognized tax benefits were $1.6 billion and $1.4 billion, respectively, related to tax positions the disallowance of which would not affect the effective tax rate as they relate to such factors as the timing, rather than the permissibility, of the deduction. Accordingly, at September 30, 2010 and December 31, 2009, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $3.7 billion and $3.4 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At September 30, 2010 and December 31, 2009, AIG had accrued $825 million and $835 million, respectively, for the payment of interest (net of the federal benefit) and penalties. For the nine-month periods ended September 30, 2010 and 2009, AIG recognized $74 million and $199 million, respectively, of interest (net of federal benefit) and penalties in the Consolidated Statement of Income (Loss).

AIG regularly evaluates adjustments proposed by taxing authorities. At September 30, 2010, such proposed adjustments would not have resulted in a material change to AIG's consolidated financial condition, although it is possible that the effect could be material to AIG's consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes.

15. Information Provided in Connection With Outstanding Debt

The following condensed consolidating financial statements reflect the results of American International Group, Inc. (as Guarantor), AIG Life Holdings (US), Inc. (AIGLH), formerly known as American General Corporation, a holding company and a wholly owned subsidiary of AIG, and all other subsidiaries combined. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Condensed Consolidating Balance Sheet

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH[(a)]	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
September 30, 2010					
Assets:					
Investments[(a)]	$ 9,799	$ -	$ 598,757	$ (131,304)	$ 477,252
Cash	73	-	1,595	-	1,668
Loans to subsidiaries[(b)]	64,648	-	(64,648)	-	-
Debt issuance costs, including prepaid commitment asset of $4,718	4,973	-	242	-	5,215
Investment in consolidated subsidiaries[(b)]	85,127	34,453	3,287	(122,867)	-
Other assets, including current and deferred income taxes	12,034	2,679	138,345	(70)	152,988
Assets held for sale	-	-	234,841	1	234,842
Total assets	$ 176,654	$ 37,132	$ 912,419	$ (254,240)	$ 871,965
Liabilities:					
Insurance liabilities	$ -	$ -	$ 342,937	$ (351)	$ 342,586
Federal Reserve Bank of New York credit facility	20,470	-	-	-	20,470
Other long-term debt	43,001	1,637	177,623	(128,842)	93,419
Other liabilities, including intercompany balances[(a)(c)]	32,335	4,822	60,725	(2,455)	95,427
Liabilities held for sale	6	-	209,272	45	209,323
Total liabilities	95,812	6,459	790,557	(131,603)	761,225
Redeemable noncontrolling interests in partially owned consolidated subsidiaries (including $107 associated with businesses held for sale)	-	-	1,412	615	2,027
Total AIG shareholders' equity	80,842	30,673	117,630	(148,303)	80,842
Noncontrolling interests:					
Noncontrolling nonvoting, callable, junior and senior preferred interest held by Federal Reserve Bank of New York	-	-	-	25,955	25,955
Other (including $403 million associated with businesses held for sale)	-	-	2,820	(904)	1,916
Total noncontrolling interests	-	-	2,820	25,051	27,871

Total equity		**80,842**		**30,673**		**120,450**		**(123,252)**		**108,713**
Total liabilities and equity	**$**	**176,654**	**$**	**37,132**	**$**	**912,419**	**$**	**(254,240)**	**$**	**871,965**
December 31, 2009										
Assets:										
Investments[(a)]	$	10,702	$	-	$	736,977	$	(146,514)	$	601,165
Cash		57		2		4,341		-		4,400
Loans to subsidiaries[(b)]		72,926		-		(72,926)		-		-
Debt issuance costs, including prepaid commitment asset of $7,099		7,383		-		159		-		7,542
Investment in consolidated subsidiaries[(b)]		71,419		28,580		(980)		(99,019)		-
Other assets, including current and deferred income taxes		10,986		2,618		164,670		(175)		178,099
Assets held for sale		-		-		56,379		-		56,379
Total assets	$	173,473	$	31,200	$	888,620	$	(245,708)	$	847,585
Liabilities:										
Insurance liabilities	$	-	$	-	$	461,706	$	(409)	$	461,297
Federal Reserve Bank of New York Commercial Paper Funding Facility		-		-		4,739		-		4,739
Federal Reserve Bank of New York credit facility		23,435		-		-		-		23,435
Other long-term debt		45,436		2,097		210,512		(144,747)		113,298
Other liabilities, including intercompany balances[(a)(c)]		34,778		4,209		60,135		(1,940)		97,182
Liabilities held for sale		-		-		48,599		-		48,599
Total liabilities		103,649		6,306		785,691		(147,096)		748,550
Redeemable noncontrolling interests in partially owned consolidated subsidiaries (including $211 associated with businesses held for sale)		-		-		177		782		959
Total AIG shareholders' equity		69,824		24,894		83,303		(108,197)		69,824
Noncontrolling interests:										
Noncontrolling nonvoting, callable, junior and senior preferred interest held by Federal Reserve Bank of New York		-		-		15,596		8,944		24,540
Other (including $2.2 billion associated with businesses held for sale in 2009)		-		-		3,853		(141)		3,712
Total noncontrolling interests		-		-		19,449		8,803		28,252
Total equity		69,824		24,894		102,752		(99,394)		98,076
Total liabilities and equity	$	173,473	$	31,200	$	888,620	$	(245,708)	$	847,585

(a) *Includes intercompany derivative positions, which are reported at fair value before credit valuation adjustment.*

(b) *Eliminated in consolidation.*

(c) *For September 30, 2010 and December 31, 2009, includes intercompany tax payable of $27.9 billion and $28.7 billion, respectively, for American International Group, Inc. (As Guarantor) and intercompany tax receivable of $92 million and $45 million, respectively, for AIGLH.*

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Condensed Consolidating Statement of Income (Loss)

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
Three Months Ended September 30, 2010					
Revenues:					
Equity in undistributed net income (loss) of consolidated subsidiaries[(a)]	$ (1,688)	$ 641	$ -	$ 1,047	$ -
Dividend income from consolidated subsidiaries[(a)]	523	-	-	(523)	-
Change in fair value of ML III	-	-	-	-	-
Other revenue[(b)]	211	48	18,832	-	19,091
Total revenues	(954)	689	18,832	524	19,091
Expenses:					
Accrued and compounding interest	120	-	-	(60)	60
Amortization of prepaid commitment asset	1,199	-	-	(75)	1,124
Total interest expense on FRBNY Credit Facility	1,319	-	-	(135)	1,184
Other interest expense	513	96	365	-	974
Restructuring expenses and related asset impairment and other expenses	109	-	-	-	109
Other expense	308	-	16,094	-	16,402
Total expenses	2,249	96	16,459	(135)	18,669
Income (loss) from continuing operations before income tax expense (benefit)	(3,203)	593	2,373	659	422
	(825)	(15)	1,195	114	469

Income tax expense (benefit)[(c)]					
Income (loss) from continuing operations	**(2,378)**	**608**	**1,178**	**545**	**(47)**
Loss from discontinued operations	**(17)**	**-**	**(1,806)**	**(21)**	**(1,844)**
Net income (loss)	**(2,395)**	**608**	**(628)**	**524**	**(1,891)**
Less:					